

Speculative

 See key risks on page 9, and early stage company risk warning on page 11.
 Speculative securities may not be suitable for Retail clients.

Analyst

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Authorisation

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Alpha HPA Ltd (A4N)

Stage 1 on track for Sep22Q start-up

Recommendation
Buy (unchanged)

Price
\$0.40
Valuation
\$0.90 (previously \$0.96)

Risk
Speculative
GICS Sector
Materials
Expected Return

Capital growth	125%
Dividend yield	0%
Total expected return	125%

Company Data & Ratios

Enterprise value	\$292m
Market cap	\$318m
Issued capital	795m
Free float	87%
Avg. daily val. (52wk)	\$1.1m
12 month price range	\$0.38-\$0.735

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.58	0.62	0.53
Absolute (%)	-30.4	-35.0	-24.5
Rel market (%)	-21.5	-24.1	-12.9

Absolute Price


SOURCE: IRESS

Precursor Production Facility commissioning next quarter

A4N's HPA First Project Stage 1 Precursor Production Facility (PPF) in Queensland's Gladstone State Development Area is now at lockup stage and on schedule for commissioning in the September 2022 quarter. All key equipment is on site and the first phase of electrical installation and the installation of key modules is nearing completion. This project is fully funded (capex around \$36m) and will fast-track production of around 350tpa of 5N (99.999%) purity aluminium precursors ahead of the full HPA First project development. Over the next few months we also expect an updated project scope for the full scale development which optimises the product mix, volumes and diversification across end use.

Marketing continues; offtake to support debt finance

A4N continues to receive interest and test orders for its suite of aluminium precursor and high purity alumina (HPA) products from across the global lithium ion battery, EV, LED and specialty chemicals industries. Full-form offtake contracts are expected over the remainder of 2022 to support debt financing and a Final Investment Decision for the full-scale HPA First Project. The HPA First Project was recently awarded a \$45m grant under the Commonwealth Modern Manufacturing Initiative and a further grant of up to \$15.5m from the Critical Minerals Accelerator Initiative.

Investment view: Speculative Buy, Valuation \$0.90/sh

A4N's aluminium precursor and HPA products have applications in lithium ion battery, micro-LED and semiconductor manufacturing; technologies at the forefront of the global decarbonising and reshoring themes. Near term value catalysts include initial aluminium precursor sales from the PPF, initial HPA product offtake agreements and final HPA First Project scope and design. We have made no material changes to our earnings estimates in this report.

A4N is a development company with prospective operations and cash flows only. Our Speculative risk rating recognises this higher level of risk and volatility of returns.

Earnings Forecast

Year end June	2022e	2023e	2024e	2025e
Sales (A\$m)	0	13	142	353
EBITDA (A\$m)	(3)	(0)	85	254
NPAT (reported) (A\$m)	(3)	(7)	59	157
NPAT (adjusted) (A\$m)	(3)	(7)	59	157
EPS (adjusted) (cps)	(0.4)	(0.7)	5.6	14.9
EPS growth (%)	na	na	na	164%
PER (x)	-92.7x	-54.5x	7.1x	2.7x
FCF Yield (%)	-11%	-34%	-33%	25%
EV/EBITDA (x)	-85.6x	-724.8x	3.4x	1.1x
Dividend (cps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	-	-	-	-
ROE (%)	-7%	-6%	28%	49%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Stage 1 on track for Sep22Q start-up

Precursor Production Facility commissioning next quarter

A4N has provided an update on the construction of Stage 1 of the HPA First project and its product marketing activities. The HPA First Project is located in Queensland's Gladstone State Development Area and involves a two stage build:

- **Stage 1 PPF:** Design capacity of 350tpa of 5N purity aluminium precursors and a budgeted capital cost of around \$36m; and
- **Full-scale HPA First Project:** A March 2020 definitive feasibility study (DFS) outlined production of 10ktpa HPA at an estimated capital cost of \$308m.

PPF FULLY FUNDED; COMMISSIONING IN SEPTEMBER 2022 QUARTER

The Stage 1 PPF is now at lockup stage and on schedule for commissioning in the September 2022 quarter. All key equipment is on site and the first phase of electrical installation and the installation of solvent extraction modules is nearing completion. At 31 March 2022, A4N had cash of \$26m, having spent \$15-20m on the project.

HPA First Project final scope nearing completion

In parallel to the PPF development, A4N is reworking the March 2020 DFS to accommodate an increased product suite as driven by the group's market outreach and expected customer demand. We expect a lift in margins as a result of A4N pivoting the project to the emerging aluminium precursor market.

The HPA First Project was initially designed with essentially one to two products and applications. A4N now has over five products with more than 14 potential applications across six technology categories as outlined in the table on the following page.

Margin expansion opportunities for the HPA First project are the result of:

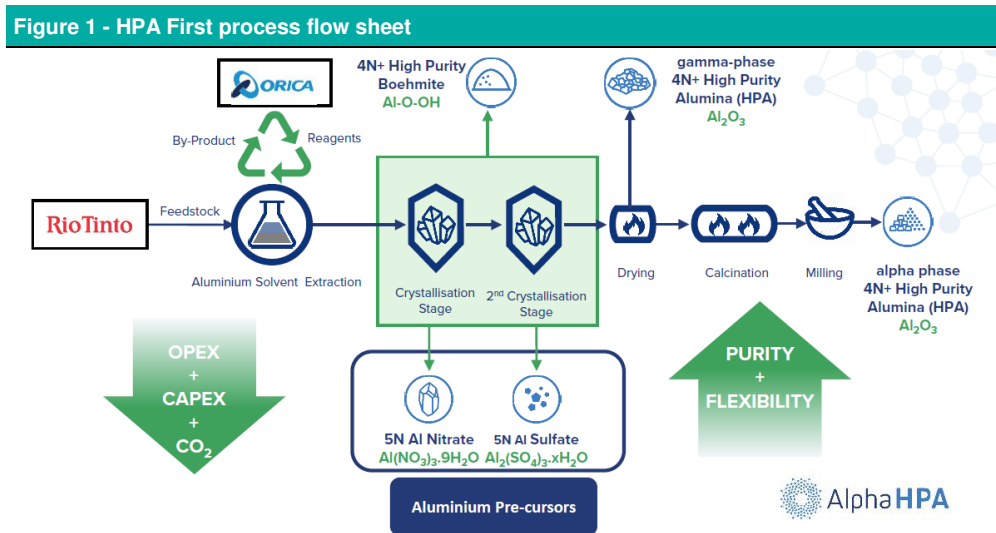
- The aluminium precursor products are drawn from the HPA First process at an earlier stage in the flow sheet, reducing the requirement for energy-intensive drying and calcination.
- Overall product volumes will be materially higher than a HPA-only plant. Around 7 tonne of aluminium precursors are required to produce 1 tonne of HPA. As such, the upstream end of the HPA First plant as outlined in the DFS had capacity for some 70ktpa of precursor product. This capacity and the emergence of aluminium precursors as key markets provides A4N the ability to optimise a higher volume and value maximising product mix across aluminium precursor and HPA products compared with 10ktpa of HPA products alone.
- Early indications are that precursor pricing is just as strong as, or stronger than, HPA pricing when this 7:1 conversion is accounted for.

Potential offtake customers seeking supply chain security

A4N has provided profiles of some of the potential offtake customers where discussions are advanced. Non-disclosure agreements prevent the naming of these counterparties.

- **Lithium ion battery sector:** Major European, U.S. and Japanese battery component (cathode, anode, separator) manufacturers; global chemicals distributors; large EV manufacturer;
- **LED lighting sector:** Global lighting, LED and micro LED component (phosphors, metal nitrides) manufacturers;

- Sapphire glass sector:** Global and regional (U.S., EU, South Korea and Japan) sapphire glass manufacturers focussing on optical, LED lighting, and watch-making end-industries.



SOURCE: A4N

Table 1 - A4N's product suite & applications						
KEY APPLICATION	Lithium ion batteries			LEDs		Other
A4N PRODUCT	Cathode	Separator	Anode	LED lights	Micro-LEDs (displays)	
Aluminium Precursors						
Aluminium nitrate	HPA particle coating		HPA particle coating	Phosphors for white LEDs	Nano-size phosphors	Catalysts & YAG laser crystals
Aluminium sulphate	Sulphate blending (NCA & NCMA) & HPA particle coating		HPA particle coating			
High Purity Alumina						
HPA powder		HPA layer coating		Phosphors for white LEDs		Specialty ceramics
HPA tablets				Sapphire glass wafers (substrate)	Sapphire glass wafers (substrate)	
Boehmite		Boehmite layer coating				Specialty ceramics

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Timeline & value catalysts

September 2022 quarter:

- Initial sales and cash flow from the PPF as the project is commissioned in the September 2022 quarter;
- Feasibility level design of a re-configured HPA First Project scope which allows for a updated product mix and volume assumptions as determined by recent marketing activities in the September 2022 quarter;

2H 2022:

- Initial commercial offtake agreements with end users signed;
- Debt financing arranged, conditional upon adequate offtake agreements;
- A4N Board take HPA First Project Final Investment Decision.

- Construction of full scale HPA First Project commences.

Earnings capability: EBITDA of ~\$250m/year at steady state

We estimate that the HPA First Project, in its current March 2020 DFS form, could generate annual EBITDA of more than \$250m at steady state. This assumption is supported by production of 10ktpa at average prices of US\$25/kg for annual revenue of \$350m. At costs of around US\$8.50/kg (consistent with A4N's March 2020 DFS), EBITDA margins are around 70%.

In June 2021, the Stage 1 PPF was estimated to have revenues of \$10-15m and generate free cash flow of \$1.5-5.0m from aluminium precursor production of 200tpa. When integrated into the HPA First Project, this free cash flow increases to \$8-11m. The project was subsequently up-scaled to 350tpa.

Future capital requirements & funding options

A4N's March 2020 HPA First Project DFS estimated capital costs of \$308m, including \$27m over-run contingency.

The HPA First Project's location (Gladstone, Queensland) and end products (inputs into key decarbonising technologies) make it a candidate for Government backed concessional debt finance. We expect that the Northern Australia Infrastructure Facility and Clean Energy Finance will consider extending debt facilities to support the project. We also expect that commercial banks diversifying away from carbon intensive projects will have an interest in extending debt and working capital finance.

The following table outlines the HPA First Project's capital requirements and the sources of funding which we assume. We factor in a \$90m equity raising over the next twelve months to support the project's development and working capital ahead of debt draw-down.

The HPA First Project was recently awarded a \$45m grant under the Commonwealth Modern Manufacturing Initiative and a further grant of up to \$15.5m from the Critical Minerals Accelerator Initiative.

Table 2 - Future capital requirements

Table 2 - Future capital requirements		
Capital costs		A\$m
Processing plant		173
Utilities		19
Infrastructure		39
Indirects		44
Owners costs		7
Total excluding contingency		281
Contingency		27
Total		308
Funding requirements	% est.	A\$m
Debt finance	65%	200
Equity	35%	108
Total	100%	308

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Valuation & methodology

Risked & diluted valuation summary

Our risked and diluted A4N valuation is \$0.90/sh and is based on:

- 4N HPA prices of US\$25,000/t (consistent with CRU Group's market outlook);
- A4N's March 2020 Definitive Feasibility Study HPA First Project capital and operating costs; and
- A4N's published Precursor Production Facility (June 2021) capital and operating cost estimates.

Risk and dilution to calculated NPV:

- Project risk discount of 25% to take into account project stage (DFS completed, pre-development stage); and
- Dilution from an assumed \$90m equity raising prior to commencement of full scale construction in mid-2022, at a 15% discount to A4N's current share price.

Table 3 - Risked & diluted valuation summary

Product price scenario	1	2	3
			Preferred
Price - 4N HPA (US\$/t)	15,000	20,000	25,000
HPA First Project			
Unrisked NPV (10% discount rate)	287	718	1,148
Risk discount	25%		
Risked NPV (10% discount rate)	215	538	861
Corporate costs	-40		
Enterprise value	175	498	821
Net debt / (cash)	-26		
Equity valuation (risked, undiluted)	201	525	848
Assumed capital raise \$m	90		
Assumed raise price \$/sh	0.485		
Government grant \$m	60		
Current shares on issue m	795		
In the money options m	73		
Assumed capital raising dilution m	265		
Diluted shares on issue m	1,133		
Net debt / (cash) (including options, assumed raising & grants)	-200		
Equity valuation (risked, diluted)	375	698	1,021
Equity valuation (risked, diluted) \$/sh	0.33	0.62	0.90
Current share price	0.400		
Valuation / price	0.8x	1.6x	2.3x

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Preferred valuation at high end of product price range

Our preferred HPA product pricing assumption is at the high end of A4N's published definitive feasibility study price ranges, which we believe is justified:

- Since the DFS, A4N has identified a number of precursor high purity aluminium and alumina products which have the potential to add further value to the project. These precursor products are produced mid-stream of the project's flow-sheet, are expected to be higher margin and have the potential to provide increased return on capital invested.
- The global decarbonisation and reshoring themes have accelerated in recent months as developed economies look to address climate change targets in the context of a post-pandemic economic recovery. A4N's HPA First Project products have applications in technologies directly linked to these themes; the manufacturing of lithium ion batteries, LED lighting and semiconductors.
- There is potential for A4N's products to have applications in the manufacture of micro-LEDs. Micro LED technology is expected to be the next generation of display technology, superseding OLED and black-lit LCDs.
- Commercialisation of A4N's HPA First Project technology could step beyond the proposed Gladstone project development. With A4N's propriety technology, HPA First Project could be scaled up or replicated elsewhere.
- A4N has announced the HPA First Project has received a Federal Government funding grant of \$45m (\$40.5m to A4N) to support the project through the Modern Manufacturing Initiative programme. Subsequently a further grant of up to \$15.5m from the Critical Minerals Accelerator Initiative was awarded.

Alpha HPA Ltd summary

Company description

A4N's HPA First Project is aiming to supply high-purity alumina (HPA) at a purity of greater than 99.99% (or 4N) to the lithium ion battery and light emitting diode (LED) manufacturing sectors. The project's proprietary technology is expected to disrupt incumbent HPA production through significantly lower unit costs. Results of a March 2020 DFS outlined a 10,000tpa 4N HPA project with a capital cost of \$308m and pre-tax annual cash flow of \$133-280m at 4N HPA prices ranging US\$15,000-25,000/t.

The HPA First Project is a solvent extraction process using an aluminium chemical feedstock purchased on globally traded markets. Orica Ltd (ORI) and A4N have executed a definitive agreement for ORI's supply of process reagents and for by-product offtake. This agreement has required significant third party due diligence of the HPA First Project process.

Investment view: Speculative Buy, Valuation \$0.90/sh

A4N's aluminium precursor and HPA products have applications in lithium ion battery, micro-LED and semiconductor manufacturing; technologies at the forefront of the global decarbonising and reshoring themes. Near term value catalysts include initial aluminium precursor sales from the PPF, initial HPA product offtake agreements and final HPA First Project scope and design. We have made no material changes to our earnings estimates in this report.

A4N is a development company with prospective operations and cash flows only. Our Speculative risk rating recognises this higher level of risk and volatility of returns.

Valuation methodology

We have modelled the HPA First Project using assumptions consistent with the March 2020 DFS. We assume:

- 4N HPA prices of US\$25,000/t (consistent with CRU Group's market outlook);
- A4N's March 2020 Definitive Feasibility Study HPA First Project capital and operating costs; and
- A4N's published Precursor Production Facility (June 2021) capital and operating cost estimates.

Risk and dilution to calculated NPV:

- Project risk discount of 25% to take into account project stage (DFS completed, pre-development stage); and
- Dilution from an assumed \$90m equity raising prior to commencement of full scale construction in mid-2022, conservatively at a 15% discount to A4N's current share price.

Risks

Risk to an investment in A4N include, but are not limited to:

- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of development and operating assets and companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Technology:** Projects may be reliant on commercialisation of new production processes and methodologies which have yet been proven on a large scale. Technology may be replicated by competitors resulting in a loss of market share.
- **Infrastructure access.** Projects are reliant upon access to transport and pipeline infrastructure. Access to infrastructure is often subject to contractual agreements, permits and capacity allocations. Agreements are typically long-term in nature. Infrastructure can be subject to outages as a result of weather events or the actions of third party providers.
- **Operating and capital cost fluctuations.** Markets for raw material inputs and labour can fluctuate and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to commodity and labour markets. Companies are also exposed to costs associated with future land rehabilitation.
- **Sovereign risks.** Companies' assets are subject to the sovereign risk of the country of location and may also be exposed to the sovereign risks of major offtake customers.
- **Regulatory changes.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuations of companies.
- **Environmental risks.** Companies are exposed to risks associated with environmental degradation as a result of their production processes.
- **Operating and development risks.** Companies' assets are subject to risks associated with their operation and development. Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Occupational health and safety (OH&S) risks.** Companies are exposed to OH&S risks.
- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments.
- **Merger/acquisition risks.** Risks associated with value transferred during merger and acquisition activity.
- **Impact of pandemic infection such as Coronavirus disease (COVID-19).** This may have an adverse impact on the macro economic factors, including the mobility of labour, which can impact asset valuations.

Table 4 - Financial summary

Date	23/06/22						Bell Potter Securities						
Price	AS/sh 0.400						Stuart Howe (showe@bellpotter.com.au, +61 3 9235 1856)						
Valuation	AS/sh 0.90												
PROFIT AND LOSS							FINANCIAL RATIOS						
Year ending 30 June	Unit	2021a	2022e	2023e	2024e	2025e	Year ending 30 June	Unit	2021a	2022e	2023e	2024e	2025e
Revenue	\$m	1	0	13	142	353	VALUATION						
Expenses	\$m	(15)	(3)	(14)	(56)	(99)	EPS	Ac/sh	(2)	(0)	(1)	6	15
EBITDA	\$m	(14)	(3)	(0)	85	254	EPS growth (Acps)	%	na	na	na	na	164%
Depreciation & amortisation	\$m	(2)	-	(2)	(10)	(18)	PER	x	-17.1x	-92.7x	-54.5x	7.1x	2.7x
EBIT	\$m	(16)	(3)	(2)	76	236	DPS	Ac/sh	-	-	-	-	-
Net interest expense	\$m	(0)	-	(5)	(11)	(12)	Franking	%	0%	0%	0%	0%	0%
Profit before tax	\$m	(16)	(3)	(7)	65	224	Yield	%	0%	0%	0%	0%	0%
Tax expense	\$m	-	-	-	(6)	(67)	FCF/share	Ac/sh	(1.2)	(4.2)	(13.6)	(13.1)	9.8
NPAT (reported)	\$m	(16)	(3)	(7)	59	157	FCF yield	%	-3%	-11%	-34%	-33%	25%
NPAT (adjusted)	\$m	(16)	(3)	(7)	59	157	EV/EBITDA	x	-20.9x	-85.6x	-724.8x	3.4x	1.1x
CASH FLOW STATEMENT							LIQUIDITY & LEVERAGE						
Year ending 30 June	Unit	2021a	2022e	2023e	2024e	2025e	Net debt / (cash)	\$m	(50)	(17)	19	157	54
OPERATING CASH FLOW							Net debt / Equity	%	-100%	-36%	10%	66%	13%
Receipts from customers	\$m	-	1	11	116	311	Net debt / Net debt + Equity	%	82517%	-56%	9%	40%	12%
Payments to suppliers and employees	\$m	(3)	(5)	(13)	(52)	(94)	Net debt / EBITDA	x	3.6x	5.0x	-46.6x	1.8x	0.2x
Tax paid	\$m	-	-	-	(6)	(67)	EBITDA /net int expense	x	-148.6x	0.0x	-0.1x	8.1x	21.2x
Net interest	\$m	0	-	(5)	(11)	(12)	PROFITABILITY RATIOS						
Other	\$m	1	-	-	-	-	EBITDA margin	%	-1446%	-24357%	-3%	60%	72%
Operating cash flow	\$m	(2)	(4)	(7)	48	137	EBIT margin	%	-1676%	-24357%	-17%	53%	67%
INVESTING CASH FLOW							Return on assets	%	-52%	-7%	-4%	15%	29%
Capex	\$m	(7)	(29)	(169)	(187)	(33)	Return on equity	%	-54%	-7%	-6%	28%	49%
Acquisitions	\$m	-	-	-	-	-	ASSUMPTIONS - Prices (nominal)						
Other	\$m	-	-	50	-	-	Year ending 30 June	Unit	2021a	2022e	2023e	2024e	2025e
Investing cash flow	\$m	(7)	(29)	(119)	(187)	(33)	4N HPA price	US\$/t	25,000	25,000	25,000	25,000	25,000
FINANCING CASH FLOW							4N HPA price	A\$/t	33,787	34,014	34,014	33,784	33,784
Debt proceeds/(repayments)	\$m	(0)	-	150	50	-	FX	US\$/A\$	0.74	0.74	0.74	0.74	0.74
Dividends paid	\$m	-	-	-	-	-	ASSUMPTIONS - Sales (equity)						
Proceeds from share issues (net)	\$m	51	-	90	-	-	Year ending 30 June	Unit	2021a	2022e	2023e	2024e	2025e
Other	\$m	0	-	-	-	-	4N HPA sales	t	-	-	-	3,740	10,000
Financing cash flow	\$m	51	-	240	50	-	5N Al-Precursor #1 - Al-Nitrate	t	-	-	153	175	175
Change in cash	\$m	42	(33)	114	(89)	104	5N Al-Precursor #2 - Al-Sulfate	t	-	-	153	175	175
Free cash flow	\$m	(8)	(33)	(126)	(139)	104	VALUATION						
BALANCE SHEET							VALUATION						
Year ending 30 June	Unit	2021a	2022e	2023e	2024e	2025e	Product price scenario				1	2	3
ASSETS							4N HPA price US\$/t				15,000	20,000	25,000
Cash	\$m	50	17	131	43	146	HPA First project \$m						
Receivables	\$m	1	0	3	28	71	Unrisked NPV (10% discount rate)				287	718	1,148
Inventories	\$m	-	0	1	6	10	Risk discount				25%		
Capital assets	\$m	1	30	197	374	389	Risked NPV				215	538	861
Other assets	\$m	0	0	0	0	0	Corporate costs \$m				(40)		
Total assets	\$m	52	48	333	451	616	Enterprise value \$m				175	498	821
LIABILITIES							Net debt / (cash) \$m				(26)		
Creditors	\$m	2	1	3	11	20	Equity valuation (risked, undiluted) \$m				201	525	848
Borrowings	\$m	-	-	150	200	200	Assumed capital raise \$m				90		
Provisions	\$m	-	-	-	-	-	Assumed raise price \$/sh				0.34		
Other liabilities	\$m	0	-	-	-	-	Current shares on issue m				795		
Total liabilities	\$m	2	1	153	211	220	In the money options m				73		
NET ASSETS							Assumed capital raising dilution m				265		
Share capital	\$m	100	100	240	240	240	Diluted shares on issue m				1,133		
Reserves	\$m	8	8	8	8	8	Net debt / (cash) (including options & assumed raising) \$m				(200)		
Accumulated losses	\$m	(57)	(61)	(67)	(8)	149	Equity valuation (risked, diluted) \$m				375	698	1,021
Non-controlling interest	\$m	-	-	-	-	-	Equity valuation (risked, diluted) \$/sh				0.33	0.62	0.90
SHAREHOLDER EQUITY	\$m	50	47	180	240	397							
Weighted average shares	m	694	790	923	1,055	1,055							

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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Disclosure: Bell Potter Securities acted as Joint Lead Manager for A4N's \$50m placement in June 2021 and received fees for that service.

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