

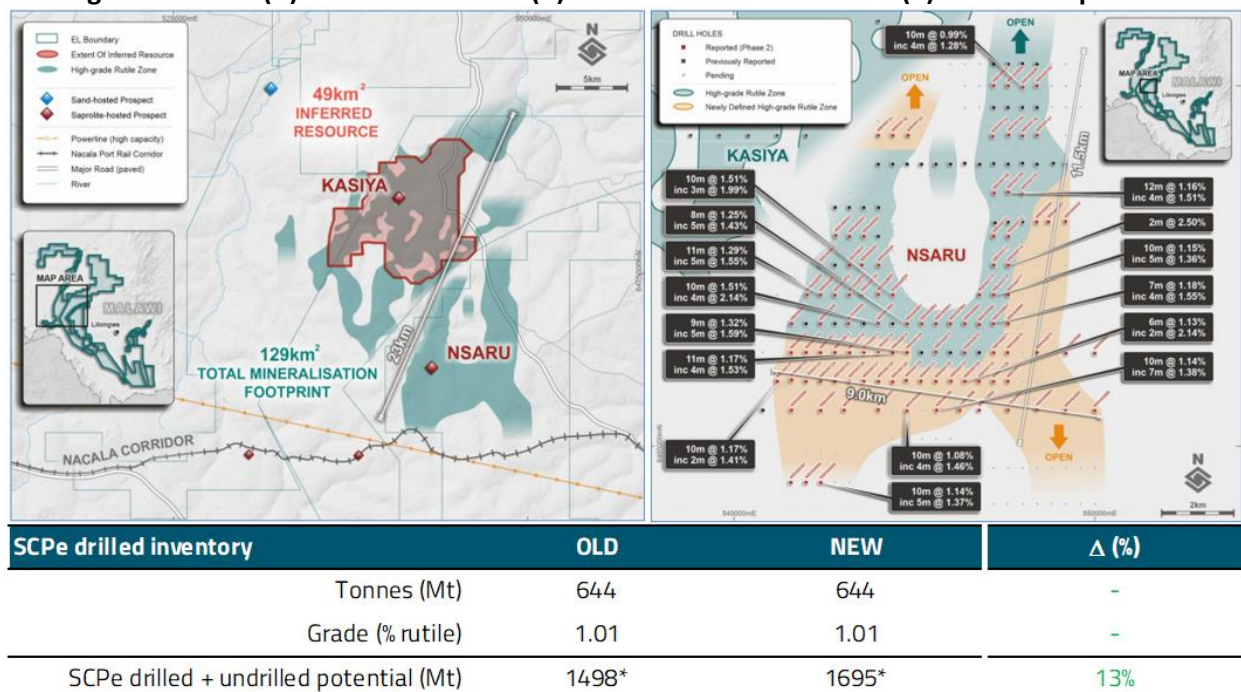
Ticker: SVM AU **Net cash:** A\$8.0m **Project:** Kasiya / Nsaru, Malingunde
Market cap: A\$228m **Price:** A\$0.54/sh **Country:** Malawi
RECOMMENDATION: BUY **TARGET (up):** A\$1.20/sh **RISK RATING:** SPECULATIVE

At 644Mt already, including 59Mt @ 1.6% rutile, this is already a massive, strategic asset. A simple pro-rata of drilled extension areas points to our prior 1,498Mt exploration target now lifting to 1,695Mt. For reference, at a SCPe nominal 10Mtpa (~150ktpa rutile, or ~5% market size), the company could already mine 1.5% material for a remarkable 14 years (60 yrs @ 1%), hence we see sizing options of up to 20Mtpa coming faster than we expected. Coming as rutile prices surge, peers struggle with mature asset issues in South Africa and Sierra Leone, and with a push toward much lower polluting rutile over ilmenite (which requires upgrading with coal), Sovereign couldn't be better placed. The 10-20Mtpa ROM feed above could support 150-300ktpa of rutile; even at US\$1,200/t a gross margin of 50% could be achieved, implying simplistic EBITDA of US\$90-180m or >US\$350m at spot CIF china prices net of transport. These are the exact figures we'd expect recently appointed Study Manager and Technical Manager to be working on, with a year end / 1H22 Scoping Study a potential key catalyst. **We maintain our BUY rating and A\$1.20/sh PT** based on 5% in-situ valuation (ie US\$65/t rutile valuation @ ~US\$1,300/t spot) over 644Mt.

Nsaru drilling lifts area from 114km² to 129km² pointing to 1.6Bt size potential vs existing 644Mt MRE

Drill results from 98 exploration holes at the pre-MRE Nsaru target have returned consistent 9-11m @ 1.1-1.5% rutile. All holes show higher grades at surface, with consistent sub intervals of 2-5m @ 1.4-2.1% rutile. Ore-grade drilling now extends over an area of up to 9km width and 11.5km strike, extending toward the 644Mt Kasiya asset to the north, and open to the south. This has taken Nsaru from 25km² to 40km², lifting the total mineralised area to 129km² including 89km² Kasiya. The company will now target a year end MRE update.

Figure 1 Plan of (A) resource area and (B) drill results from Nsaru for (C) SCPe 1.7Bt potential



Source: Sovereign Metals

Why we like Sovereign Metals

1. Pure rutile deposit increases margin, addresses downstream ESG requirements
2. Unique metallogenesis drives large grain size and premium low-deleterious product

3. On hydropower, hydro mineable, on modern rail to deep-water port with allocation
4. PFS-level Malingunde graphite project adds diversification and second pillar to value
5. Potential 'province scale' discovery with 4,000km² of unique geology largely undrilled

Catalysts

1. **2H21:** Kasiya infill, Nsaru definition drilling
2. **4Q21:** Maiden MRE for Nsaru, updated Kasiya MRE
3. **Year end 2021:** PEA

Research

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Kasiya in-situ value @ 644Mt (US\$bn)	8.0	Basic shares on issue (m)	414
Kasia @ 5%insitu value (US\$m)	401	Dilutive options and RSUs (m)	54.1
Kasiya asset valuation (A\$m)	521	Average strike (A\$/sh)	0.24
Plus cash on hand (A\$m)	8.0	Fully diluted shares (m)	468
Nominal graphite valuation (A\$m)	10.0	SCP NAV/sh (A\$/sh)	1.18
Plus cash from dilutive options (A\$m)	12.8	Recommendation	BUY
Sovereign group NAV (A\$m)	552	Price target (A\$/sh):	1.20

Source: Sovereign, SCP estimate

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TENDER: The analyst recommends tendering shares to a formal tender offering

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Summary of Recommendations as of August 2021	
BUY:	45
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	45

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