

Ticker: ADT AU/LN	Net cash: A\$33m	Project: Rupice / Kizevak
Market cap: A\$588m	Price: A\$2.76/sh	Country: Bosnia / Serbia
RECOMMEND. (unc): BUY	TARGET (unc): A\$3.30/sh	RISK RATING: HIGH

Stripping out commodity price changes, we think the DFS NPV_{8%} US\$966m NPV (US\$1.06bn on slightly improved basket) against a US\$1.04bn PFS is a great win as the 'kitchen sink' has been thrown at operations, likely in parallel with financing DD, de-risking the asset while the NPV remains far above the US\$423m market cap. On that alone, our positive view on this name remains. Unlike precious-only flow sheets, polymetallics i) are trickier but ii) in our view can 'always be solved' and today's DFS does that. We like the removal of more esoteric revenue streams such as barite and pyrite concentrate, partly from a 'simplicity' perspective, and partly as many miners are about to find out, shipping costs ~3.5x LT are hurting low-value products globally.

All changes boil down to **value vs. risk**; with the stock at <0.5xNAV, any drop in risk (and consequent ability to close the gap to 1xNAV) is more important as long as the value delta isn't extreme. As such, the pit and barite removal go hand in hand. Barite has no impact as we held prices at cost for nil NPV. The late-life lower-grade pit added little to our NPV, but introduced concentrate and mining/TMF complexity. By removing it, additional tailings storage needed in absence of barite sales is elegant. We see the pyrite concentrate as the same – a low value niche product – with simplified circuit the Pb-Zn con concentrate can be kept above 2,500g/t Ag required for duty-free import into China, with Au-Ag credits from pyrite con heading into Zn con, itself a in demand product given the low iron. Similarly moving from parallel-declines to a lower ingress and upper egress improves TPD (one-way traffic), and allows access to higher-grades earlier for an improved NPV from what will be a 'cash cow' early on. Similarly, the ~tripling of UG mining capex should take the number one pressure of all one-asset UG ramp ups: development, a shore full of shipwrecks, with savings made up from the simplified flow sheet for ~flat capex.

The other key price driver is **funding**; we expect a self-finance option, ideally without early-repayment penalties to leave the door open to M&A. The structure of the funding will be as material as the minor changes from PFS to DFS, making it a key catalyst. Ahead of full model review and financing, **we maintain our BUY rating and 0.7xNAV5% fully-funded fully-diluted A\$3.30/sh PT** based on 276m shares, 1Y forward, net of all finance costs and G&A with US\$110m of debt and US\$95m equity at 0.5xNAV (stock at 0.48xNAV now). Our model uses similar inputs to the DFS: 118c/lb Zn (136c DFS from 113c PFS), US\$1,850/oz Au (US\$1,800/oz DFS from US\$1900/oz PFS) and US\$24/oz Ag (US\$25/oz DFS from US\$24/oz PFS). Post financing, we expect construction start in October for UG development to proceed over winter, with all permits in place for that pending 'publication' of the granted ESIA in coming weeks.

DFS 'real worlds' Rupice with simplified process and no niche commodities for flat NPV: a big win

Adriatic's DFS shows several material changes to the PFS with a ~flat NPV_{8%} of US\$1b. The **UG mine plan** moves from parallel declines to an upper egress and lower ingress (accessing high grader earlier), with small ventilation decline replacing a raise bore for improved geotechnical aspects. The **Veovaca** open pit has been removed given marginal economics of lower-value concentrate there, creating 2Mt of space in the TMF and removing a 9Mt waste-rock facility, creating space for **barite** which is now excluded from product sales, given the volatile economics of shipping the lower value bulk commodity in current markets where shipping containers have ~tripled in cost. **Pyrite concentrate** has also been removed, with Ag/Ag partially reporting to the main zinc and lead-silver concentrates. **Capex savings** of US\$5m came from an optimised circuit removing a SAG mill for **capex** of US\$168m, down from US\$173m. Other capex drops came from reduced product streams, with savings put back into a materially increased pre-production mining of US\$21m, up from US\$6m, and a lifting in costs for site infrastructure such as the road. The published NPV dropped by US\$149m from Veovaca, barite and pyrite, and climbed by US\$73m from schedule improvements, a weaker local currency, and other changes for a net US\$76m like-for-like drop from US\$1.04bn to US\$966m, lifting to a published US\$1.06bn on improved commodity basket.

Table 1. (A) Project economics for PFS vs. DFS and (B) impact on published NPV

KEY METRIC	UNIT	2021 DFS	2020 PFS
Post-tax NPV (8%) ¹	US\$ million	1,062	1,040
Post-tax Internal Rate of Return ¹	%	134%	113%
Project Payback from First Production ¹	years	0.7	1.2
Initial Capital Costs	US\$ million	168	173
Total Mined Tonnes to Plant	Mt	7.3	11.1
Life of Operation	years	10	14
Cash Cost ^{1,2}	US\$/AgEq ounce	7.0	9.5
All-in Sustaining Cost (AISC) ^{1,3}	US\$/AgEq ounce	7.3	9.7
Average Annual AgEq Production Years 1-5	koz/year	14,975	15,302
Underground Mining Costs (mined)	US\$/t mined	24.1	27.6
Underground Mining Costs (milled)	US\$/t milled	30.0	31.9
Processing Costs	US\$/t milled	30.3	31.5
G&A Costs	US\$/t milled	7.7	4.8
Refining & Freight Costs	US\$/t milled	35.7	52.1
Revenue ¹	US\$/t milled	376.9	296.1
Average Annual EBITDA Years 1-5 ¹	US\$ million	281.1	251.0
Profitability Index ¹	(Post-Tax NPV ₀ /CAPEX)	6.3	6.0

Factor	Impact (\$)
2020 PFS	1,040,000
License / AgEq Core Royalty	(43,700)
Banking Costs	(57,800)
Sulphide Price	(48,000)
Commodity Price	98,000
Other	73,500
2021 DFS	1,062,000

Source: Adriatic

Why we like Adriatic

1. World-class polymetallic with 213Moz @ 342g/t AgEq resource
2. Complete DFS and permits allow construction start post finance with stock at
3. Recently expanded licence along prospective belt with no modern exploration
4. Existing infrastructure, low opex, royalties and taxes, strong permitting history in Bosnia
5. Pipeline projects in Serbia with potential for 10Mt @ 8-10% Zn for second operation

Catalysts

1. 3Q21: Construction finance
2. 4Q21: Target mine development start
3. 4Q22: First production

Research

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Ticker: ADT AU	Price/mkt cap: A276c/sh, A\$577m	Group P/NAV today: 0.48x	Asset: Rupice / Veovaca
Author: B Salier / B Gaspar	Rec/0.7xNAV PT: BUY, A\$3.3/sh	1xNAV_{3Q21} FD: A\$5.71/sh	Country: Bosnia / Serbia

Commodity	Price	Recov.	Payab.	NSR*	% totl.
Silver	24.0	93%	69%	64%	32%
Zinc	1.18	97%	58%	56%	27%
Gold	1850	71%	64%	45%	15%
Lead	0.90	93%	68%	64%	15%
Copper	3.63	96%	68%	66%	10%

*Payable recoverable / in-situ Barite and antimony: 1%

Asset based SOTP valuation^				
	US\$m	O/ship	NAVx	A\$/sh*
NPV Rupice (build start)	952	100%	1.0x	5.36
Tethyan (US\$0.65/oz AgEq)	23	100%	1.0x	0.13
Cash 1Q21	53.2	-	1.0x	0.30
Cash from options (US\$m)	9.4	-	1.0x	0.05
1xNAV8% 1Q20 \$1850/oz	1,038			5.84

*Asset only, build start, ex G&A and fin. costs Market P/NAV_{10%}: 0.48x

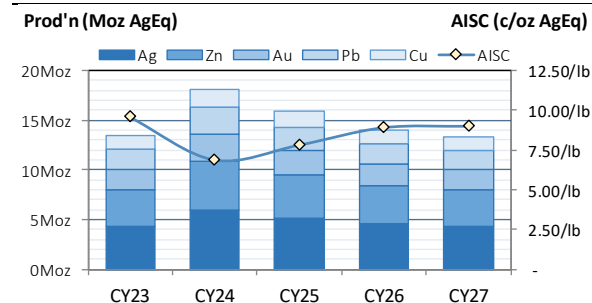
Asset NPV (US\$m): 1xNPV project today (US\$m, ungeared)*					
Grade / cmdty px:	80%	90%	100%^	110%	120%
10% discount	612	790	967	1,144	1,320
8% discount	654	846	1,038	1,229	1,420
6% discount	699	908	1,117	1,325	1,532
Ungeared project IRR:	66%	79%	92%	104%	115%
Asset NPV (US\$m)	5.0Mt	6.0Mt	7.0Mt	8.0Mt	9.0Mt
Grade/px: +80%	654	654	654	654	654
Grade/px: +90%	846	846	846	846	846
Base case^	1,038	1,038	1,038	1,038	1,038
Grade/px: +110%	1,229	1,229	1,229	1,229	1,229
Grade/px: +120%	1,420	1,420	1,420	1,420	1,420

^Project level NPV, excl finance costs and central SGA, discounted to build start

Group NAV over time*	Jun 21	Jun 22	Jun 23	Jun 24	Jun 25
Rupice / Veovaca (US\$m)	895	1,078	1,230	986	789
Central & finance (US\$m)	(127)	(117)	(104)	(90)	(80)
Tethyan (nominal)	23	23	23	23	23
Net cash prior qtr (US\$m)	13.2	(1.5)	(89.7)	122.8	308.0
Cash from options (US\$m)	9.4	9.4	9.4	9.4	9.4
NAV (US\$m)	814	992	1,068	1,051	1,050
FD shares on issue (m)	232.3	275.8	275.8	275.8	275.8
1xNAV8%/sh FD (A\$/sh)	4.58	4.70	5.06	4.98	4.98
0.7xNAV PT:	3.30		P/NAV FF FD:	0.59x	

*Diluted for options and mine-build equity, net of central G&A and fin. costs

Production (Y1 from 3Q22)	CY23	CY24	CY25	CY26	CY27
ZnEq production (000t)	124	169	148	131	124
ZnEq AISC cost (US\$/lb)	0.47	0.34	0.38	0.44	0.44
AgEq production (000oz)	13	18	16	14	13
AgEq AISC cost (US\$/oz)	9.6	6.9	7.8	8.9	9.0



Source: SCP estimates

Resources and reserves	Tonnes	AgEq	Ag (%)	Zn (%)	
Rupice M&I + Inf resource	12.0Mt	137g/t	193Moz	30%	27%
Veovaca M&I + Inf resource	7.4Mt	119g/t	28Moz	34%	41%
Total M&I + Inf resource	19.4Mt	356g/t	222Moz	30%	29%
Rup + Veo P&P reserve	11.1Mt	433g/t	155Moz	30%	33399%
Kizevak / Sastavci estimate	7.6Mt	293g/t	71Moz	9%	0%

Share data	Basic	FD	FF FD (equity @ 0.5xNAV)
Basic shares (m)	209.207	232.3	275.8

Sources		Uses	
Cash + pr prod ops (US\$m)	53.2	Capex + working cap (US\$m)	192.6
Debt (US\$m)	110.0	Finance + G&A in build (US\$m)	14.6
Mine build equity (US\$m)	95.0	Total uses (US\$m)	207.2

Ratio analysis	CY20A	CY21E	CY22E	CY23E	CY24E
Average shares out (m)	209.2	242.5	275.8	275.8	275.8
EPS (US\$/sh)	(0.03)	(0.13)	(0.07)	0.49	0.87
CFPS before w/c (US\$/sh)	(0.06)	(0.29)	(0.57)	0.56	0.96
EV (US\$m)	421.7	468.5	712.6	576.3	323.7
FCF margin (%)	-	-	-	35%	60%
PER (x)	-	-	-	4.3x	2.4x
P/CF (x)	-	-	-	3.8x	2.2x
EV/EBITDA (x)	-	-	-	3.1x	1.1x

Income statement	CY20A	CY21E	CY22E	CY23E	CY24E
Revenue (US\$m)	-	-	41.8	323.6	439.0
COGS (US\$m)	-	(13.0)	(40.5)	(127.4)	(123.1)
D&A (US\$m)	-	-	-	(20.3)	(27.6)

Gross profit (US\$m)	-	(13.0)	1.3	175.9	288.2
Admin (US\$m)	(5.9)	(10.1)	(10.1)	(10.1)	(10.1)
Finance cost (US\$m)	0.2	(0.8)	(8.5)	(12.3)	(7.7)
Expln, royalty, other (US\$m)	(1.2)	(8.2)	(0.1)	(1.4)	(1.5)
Tax (US\$m)	-	-	(2.5)	(17.6)	(28.8)

Net income (US\$m)	(6.9)	(32.2)	(20.0)	134.5	240.0
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Cash flow	CY20A	CY21E	CY22E	CY23E	CY24E
EBITDA (US\$m)	(6.9)	(30.8)	(9.0)	184.6	304.3
Less working capital (US\$m)	-	0.9	16.3	16.8	12.9
Less finance costs (US\$m)	0.2	(0.8)	(8.5)	(12.3)	(7.7)
Less tax paid (US\$m)	-	-	(2.5)	(17.6)	(28.8)

Cash flow ops (US\$m)	(6.7)	(30.7)	(3.7)	171.6	280.6
PP&E - build (US\$m)	4.3	45.3	138.4	1.7	2.3

Cash flow inv. (US\$m)	(6.2)	(38.3)	(138.4)	(1.7)	(2.3)
Share issue (US\$m)	16.2	95.0	-	-	-
Debt draw (repay) (US\$m)	19.8	25.0	85.0	(38.3)	(36.7)

Cash flow fin. (US\$m)	33.8	120.0	85.0	(38.3)	(36.7)
Net change in cash (US\$m)	19.7	48.5	(88.9)	98.0	215.9

Balance sheet	CY20A	CY21E	CY22E	CY23E	CY24E
Cash (US\$m)	40.0	88.5	(0.4)	97.6	313.5
Acc rec. + inv. (US\$m)	0.8	3.6	23.8	48.1	60.5
Non-Current (US\$m)	28.3	66.5	204.9	186.3	161.0
Total assets (US\$m)	69	159	228	332	535
Debt (US\$m)	20.0	45.0	130.0	91.7	55.0
Accounts payable (US\$m)	0.7	1.9	6.6	14.0	13.6
Total liabilities (US\$m)	20.7	47	137	106	69
Shareholders equity (US\$m)	66.2	161.2	161.2	161.2	161.2
Retained earnings (US\$m)	(18.1)	(49.8)	(69.7)	64.8	304.9
Liability + equity (US\$m)	69	159	228	332	535

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TENDER:	0
NOT RATED:	0
TOTAL	45

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