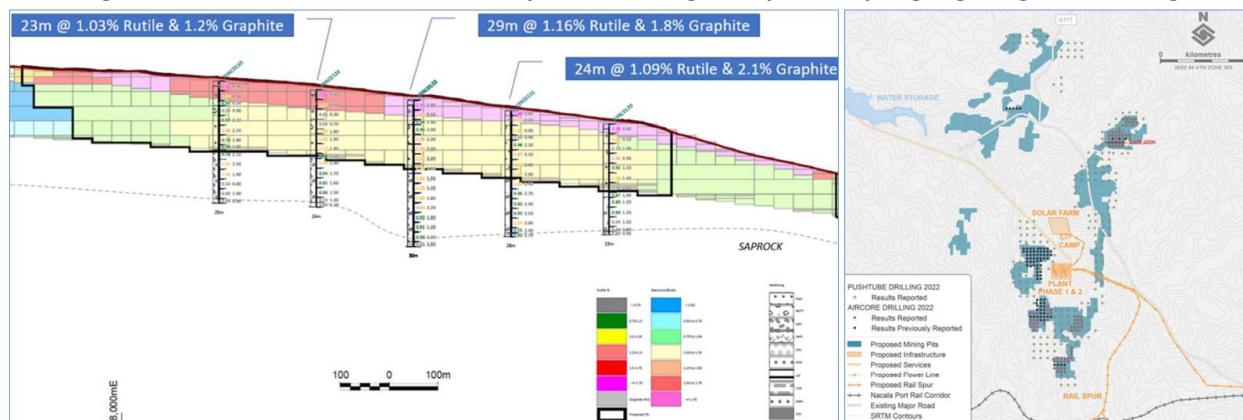


Ticker: SVM AU **Cash 3Q22:** A\$16m **Project:** Kasiya / Nsaru, Malingunde / NGX
Market cap: A\$238m **Price:** A\$0.505/sh **Country:** Malawi
REC. (unc): BUY **TARGET (unc):** A\$1.65/sh **RISK RATING (unc):** HIGH

We see three key takeaways from today's infill and expansion drilling: *i) more ore* – the MRE previously went to 10m base-of-drilling +2.7m, for ~13m vs. against 21m average of drilling today, so even if this deeper resource only covered a third of the resource, we could see 1.8Bt lift toward 2.5Bt. Although that is a strategic size given our A\$2bn NAV is based on just 541Mt; *ii) early-years advantages* from both less pit movement on deeper mining areas (within limits given hydro-mining will be limited to weathered material), and also the ability to start in some areas of higher grade given scoping studies, potentially above the 1.3% early-years grades in the scoping vs. 1.14% LOM grade, and *iii) more graphite at depth* – with headline grades of around 2% vs. LOM 1%, and areas over 5%. Tangentially, REE junior Mkango received environmental approvals in Malawi last week, a useful reference point for Sovereign. As such, we **maintain our BUY rating and our A\$1.65/sh PT** based on a 0.5xNAV multiple for Kasiya, holding the 1.2Bt of unmined material at just 0.15% in situ. Ultimately its time to see the engineering now, with a 1Q23 MRE update and 2Q23 PFS to do just that. With Kasiya the world's largest and highest-value rutile deposit globally, and second largest contained graphite deposit, today's news appears to be a timely reminder given the stock is trading at just 0.16x P/NAV.

Figure 1: (A) cross section of eastern pit and (B) regional plan map highlighting new drilling



Source: Sovereign Metals

31m@1.1% rutile & 1.9% graphite points to lift in MRE due this quarter ahead of 2Q23 PFS

Reports infill and extension results from final 98 AC holes (2,548m) and 247 PT holes with highlights of **31m @ 1.14% rutile & 1.9% graphite**, **27m @ 1.08% rutile and 2.1% graphite**, and **25m @ 1.08% rutile and 5.2% graphite**. Additionally, reports water hole drilling (bore exploration and monitoring), geotech drilling (water dam wall and pit holes incl. four deep stratigraphic holes), and community borehole drilling were complete in 4Q22. Results will be incorporated in upcoming 1Q23 MRE update with subsequent PFS to follow in 1H23 (incl. environmental and social baseline workstreams).

Why we like Sovereign Metals

- Existing **1,775Mt @ 1.01% rutile** comes from just 180km² of Kasiya
- A\$1.5bn NPV8 project on capex of just US\$372m for attractive economics
- Pure rutile + graphite credits lower CO₂ and adds EV credits addressing ESG agenda
- On hydropower, hydro-mineable, on modern rail to deep-water port with allocation
- PFS-level Malingunde graphite project adds diversification and second pillar to value

Catalysts

1. **1Q23:** Resource update – to include indicated, but adding drilling to 30m in places

2. 1H23: PFS

Research

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Ticker: SVM LN	Price / mkt cap: A\$0.505/sh, A\$238m	Project PNAV today: 0.16x	Asset: Kasia / Nsaru
Author: B Salier, E Magdzins	Rec / 0.5xNAV PT: BUY, A\$1.65/sh	1xNAV_{4Q25} FF FD: C\$1.81/sh	Country: Malawi

Commodity price	CY21E	CY22E	CY23E	CY24E	CY25E
Rutile price (US\$/t)	1,470	1,469	1,456	1,458	1,466
Graphite price (US\$/t)	1,085	1,085	1,085	1,085	1,085

SOTP project valuation*					
	A\$m	O/ship	NAVx	A\$/sh	
Ungeared @ build start (4Q23)	1,465	100%	0.50x	1.48	
Cash SCP 3Q22	15.6	100%	1.00x	0.03	
Cash from options	8.9	100%	1.00x	0.02	
Res outside inventory @ 0.15% insitu	52	100%	1.00x	0.11	
NGX graphite SpinCo	9	100%	1.00x	0.02	

Asset NAV10% US\$1308/t rutile	1,542	PT:	1.63
*Shares diluted for options mine build, ungeared Market P/NAV _{10%} 0.16x			

Group NAV sensitised to rutile and graphite price (A\$m, ungeared)*

Project NPV 10% (A\$m)	R \$0.91k	R \$1.11k	R \$1.31k	R \$1.51k	R \$1.91k
Graphite \$0.835k/t	1,319	1,319	1,319	1,319	1,319
Graphite \$1.085k/t	1,542	1,542	1,542	1,542	1,542
Graphite \$1.335k/t	1,766	1,766	1,766	1,766	1,766
Ungeared project IRR^	29%	29%	29%	29%	29%
Project NPV 8% (A\$m)	R \$0.91k	R \$1.11k	R \$1.31k	R \$1.51k	R \$1.91k
Graphite \$0.835k/t	1,571	1,571	1,571	1,571	1,571
Graphite \$1.085k/t	1,835	1,835	1,835	1,835	1,835
Graphite \$1.335k/t	2,100	2,100	2,100	2,100	2,100

*Project NPV, ex fin. costs and cent G&A, discounted to build start; ^SVM px deck

Group NAV over time^	1Q23	1Q24	1Q25	1Q26	1Q27
Kasiya NPV (A\$m)	1,357	1,531	1,924	2,424	2,478
G&A and fin. costs (A\$m)	(100)	(101)	(105)	(91)	(66)
Net cash prior qtr (A\$m)	12.4	213.9	10.0	(297.2)	(166.7)
Cash from options (A\$m)	8.9	8.9	8.9	8.9	8.9
Res outside inventory @ 0.15%	52	52	52	52	52
NAV FF FD (A\$m)	1,331	1,705	1,890	2,096	2,306
FD shares in issue (m)	961	1,157	1,157	1,157	1,157
1xNAV5%/sh FF FD (A\$/sh)	1.38	1.47	1.63	1.81	1.99

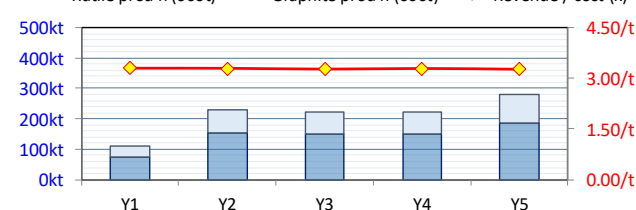
Geared NAV at 1st production, diluted for build, net G&A and fin. costs^

NPV10% (A\$m)	R \$0.91k	R \$1.11k	R \$1.31k	R \$1.51k	R \$1.91k
Graphite \$0.835k/t	1,821	1,821	1,821	1,821	1,821
Graphite \$1.085k/t	2,096	2,096	2,096	2,096	2,096
Graphite \$1.335k/t	2,372	2,372	2,372	2,372	2,372
Geared project IRR:	28%	28%	28%	28%	28%
NPV8% (A\$m)	R \$0.91k	R \$1.11k	R \$1.31k	R \$1.51k	R \$1.91k
Graphite \$0.835k/t	2,203	2,203	2,203	2,203	2,203
Graphite \$1.085k/t	2,528	2,528	2,528	2,528	2,528
Graphite \$1.335k/t	2,855	2,855	2,855	2,855	2,855

^Project NPV net G&A & fin. cost, +n et cash; *diluted for build equity

Prod'n (Y1 from 4Q25)	Y1	Y2	Y3	Y4	Y5
Rutile prod'n (000t)	75	153	149	149	186
Graphite prod'n (000t)	37	76	74	74	94
Revenue / cost (x)	3.29	3.28	3.26	3.28	3.26

Legend: Rutile prod'n (000t) [Blue bar], Graphite prod'n (000t) [Light Blue bar], Revenue / cost (x) [Red line]



Source: SCP estimates

Resource / Reserve	Tonnes	Rutile	Tonnes	Graphite	Tonnes
Resource	1775Mt	1.01%	17.9Mt	1.32%	23.4Mt
SCP mining inventory	541Mt	1.14%	6.2Mt	1.52%	8.2Mt

Project: USES		Funding: SOURCES	
Pre-build exploration:	A\$14m	Cash + ITM options:	A\$24m
Build capex:	A\$510m	Build equity @ 0.5xNAV:	A\$235m
Finance costs (A\$m)	A\$10m	65% geared debt @ 10%:	A\$306m
TOTAL USES:	A\$535m	TOTAL SOURCES:	A\$565m
Buffer / drill budget: A\$30m			

Share data	Basic	>FD	>DFS eq	>Build equity
Basic shares (m)	470.9	496.3	960.9	1,156.8

Ratio analysis (YT June)	FY21A	FY22E	FY23E	FY24E	FY25E
Shares out (m)	413.4	470.7	470.9	1,131.3	1,131.3

EPS (A\$/sh)	-	-	-	-	-
CFPS (A\$/sh)	-	-	-	-	-
EV (A\$m)	-	218.8	231.7	485.2	859.1
FCF yield (%)	-	-	-	-	-
PER (x)	-	-	-	-	-
EV/EBITDA (x)	-	-	-	-	-

Income statement (YT Jun)	FY21A	FY22E	FY23E	FY24E	FY25E
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Net revenue (A\$m)	-	-	-	-	-
COGS (A\$m)	-	3,171.4	-	-	-

Gross profit (A\$m)

G&A (A\$m)	1.4	2.8	3.6	3.6	3.6
Finance cost (A\$m)	-	-	-	-	10.3
Exploration (A\$m)	2.9	6.3	9.0	-	-
Taxes (A\$m)	-	-	-	-	-
Minorities (A\$m)	-	-	-	-	-
Other (A\$m)	0.9	1.1	0.1	-	10.3

Net income (A\$m)

	(5.1)	(10.1)	(12.8)	(3.6)	(13.9)
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Cash flow, attrib. (YT Jun)

	FY21A	FY22E	FY23E	FY24E	FY25E
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EBIT (A\$m)	(5.1)	(10.1)	(12.8)	(3.6)	(3.6)
Add back D&A (A\$m)	0.0	-	-	-	-
Change in WC (A\$m)	(0.1)	1.0	-	-	-
Other non-cash (A\$m)	(1.2)	(2.0)	-	-	10.3
Cash flow ops (A\$m)	(3.9)	(9.1)	(12.8)	(3.6)	(13.9)
PP&E - build (A\$m)	(0.3)	(0.4)	-	(150.0)	(360.0)
PP&E - sust (A\$m)	-	-	-	-	-

Cash flow inv. (A\$m)

	(0.3)	(0.4)	-	(150.0)	(360.0)
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Cash flow fin. (A\$m)

	9.8	21.4	(0.0)	234.6	306.0
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Net change in cash (A\$m)

	5.6	11.9	(12.8)	81.0	(67.9)
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EBITDA (A\$m)

	(5.1)	(10.1)	(12.8)	(3.6)	(3.6)
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Balance sheet

	FY21A	FY22E	FY23E	FY24E	FY25E
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Cash (A\$m)	8.0	18.9	6.1	86.2	18.2
Acc rec, inv, prep. (A\$m)	0.3	0.3	0.3	0.3	74.2
PP&E & other (A\$m)	7.6	7.9	7.9	157.9	444.0
Total assets (A\$m)	15.8	27.1	14.3	244.4	536.4
Debt (A\$m)	-	-	-	-	306.0
Acnt pybl (A\$m)	0.7	1.8	1.8	1.8	1.8
Others (A\$m)	0.1	0.1	0.1	0.1	0.1
Total liabilities (A\$m)	0.8	1.9	1.9	1.9	307.9
Issued capital (A\$m)	55.3	78.9	78.8	313.4	313.4
Earnings (A\$m)	(39.4)	(51.8)	(64.5)	(69.1)	223.0
Liab.+equity (A\$m)	15.8	27.1	14.3	244.4	536.4

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SELL: The stocks total returns are expected to be materially lower than the overall market

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

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NOT RATED ((N/R): The stock is not currently rated

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Summary of Recommendations as of January 2023	
BUY:	53
HOLD:	1
SELL:	0
UNDER REVIEW:	1
TENDER:	0
NOT RATED:	0
TOTAL	55

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