

Ticker: NGC CN	Cash: C\$4.7m	Project: LDI, Okanjande
Market cap: C\$67m	Price: C\$0.55/sh	Country: Canada / Namibia
REC. (unc): BUY	TARGET (unc): C\$1/sh	RISK RATING (unc): SPECULATIVE

Today's news of Northern's equity interest acquisition in NeoGraf is another example of why we like Northern; sector knowledge. The company has dealt with the downstream for years at Imerys, and is leveraging this to move quickly in an emerging space. Here we add refractories, fuel cells and graphene markets, expanding the Graphex deal on more traditional anode facility in Quebec. With today's deal, Northern captures almost the whole graphite products supply chain, a good achievement since just months ago this one was a one-dimensional 'producer'. Today's agreement starts filling a gap that a market obsessed with Li-ion batteries, adding fuel cells, graphene, nanomaterial, and refractory markets, potentially positioning Northern an industry leading mine-to-market graphite company, which none of its peers can claim. Of course, precisely how this evolves, and the economics, are very much speculative, but, it's a speculation global governments need to make (ie fund), open more funding angles for the company also. As such, we maintain our **BUY rating and our C\$1.00/sh PT**. Looking ahead, we see the PEA results for the expansion of the Namibian operations (as engineering and construction are on-going targeting restart of production by 2024) and partnerships / offtake agreements with EV OEMs / Battery companies, as two key catalysts that could move the needle and provide more torque for Northern's stock price.

Acquires 33% ownership in NeoGraf; now captures the whole range of graphite downstream market

Northern Graphite entered into an agreement with Edgewater Capital Partners to acquire an ownership interest in NeoGraf solutions – a downstream graphite producing company based in Ohio, US. NeoGraf produces graphite products for refractories, powders & additives, fire retardants, fuel cells and consumer electronics. Northern Graphite has a six-month option to acquire a 50.1% voting and 33.3% equity interest in NeoGraf, with an option to increase its interest up to 100% at a later date.

Why we like Northern Graphite

- Only graphite producing company in North America with qualified products
- Near-term production capacity of 50,000tpa
- 3rd largest natural graphite producer outside of China
- Largely undervalued relative to non-producing/developers peers with unqualified products

Catalysts

- 1H23: PEA for Namibian operations expansion
- 2023-2024: Restart operations and ramp up production from Namibia
- 2023-2024: Final decisions for downstream integration and BAM facility

Research

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Ticker: NGC CN	Price / mkt cap: C\$0.55/sh, C\$67m	Group P/NAV today: 0.42x	Asset: LDI / Okanjande
Author: B Salier / E M Rec	xNAV PT: BUY, C\$1/sh	1xNAV: C\$1.32/sh	Country: Canada / Namibia

Share data				
Basic shares (m):	121.3	FD with options (m)^:	145.0	

Commodity price	CY23E	CY24E	CY25E	CY26E	CY27E
Graphite px (C\$/t)	2,053	2,027	2,018	2,019	2,018

Group-level SOTP valuation					
	C\$m	O/ship	NAVx	C\$/sh	
NPV Lac des Iles 4Q22	12.9	100%	1.00x	0.09	
NPV Mousseau West satellite	39.4	100%	0.75x	0.20	
NPV Okanjande (build start)	102.3	100%	0.60x	0.42	
NPV Bisset Ck (build start)	156.7	100%	0.50x	0.54	
Central, fin. & acq'n cost	(36.6)	100%	1.00x	(0.25)	
Net cash (3Q22)	(9.3)	100%	1.00x	(0.06)	
Cash from Options	7.7	100%	1.00x	0.05	

1xNAV8% US\$1500/t **273** **PT: 0.99**

1xNAV today (C\$m, ungeared)* sensitised to graphite price & discount

Group NAV (C\$m)	\$1200/t	\$1350/t	\$1500/t	\$1650/t	\$1800/t
10% discount	186	224	261	296	332
8% discount	195	235	273	311	348
5% discount	210	254	296	337	378

Price target (C\$/sh)	\$1200/t	\$1350/t	\$1500/t	\$1650/t	\$1800/t
10% discount	0.60	0.78	0.94	1.10	1.27
8% discount	0.64	0.82	0.99	1.16	1.34
5% discount	0.70	0.90	1.09	1.27	1.46

*Project level NPV, ex fin. costs and cent. SGA, d'counted to build start

Group NAV over time	Mar 23	Mar 24	Mar 25	Mar 26	Mar 27
Lac des Iles (C\$m)	52.7	52.7	52.3	48.8	41.4
Okanjande (C\$m)	-	102.3	137.8	129.6	123.8
Bisset Ck (C\$m)	156.7	201.0	331.2	347.8	318.5
Central G&A (C\$m)	(35.4)	(32.7)	(29.1)	(25.1)	(22.4)
Cash + fr. ops (C\$m)	14.4	8.0	(12.2)	11.1	17.0
1xNAV (C\$m)	188.4	331.4	480.1	512.2	478.3
1xNAV8%/sh FF FD (C\$/	1.30	2.3	3.3	3.5	3.3

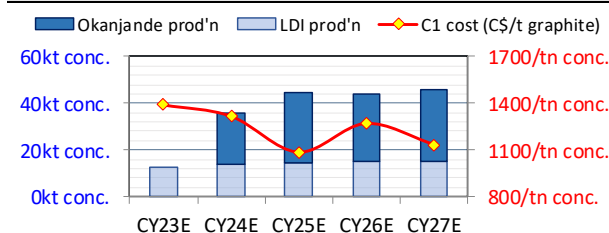
1.0xNAV/sh (C\$m, geared)^

1Q23 NAV (C\$m)	\$1200/t	\$1350/t	\$1500/t	\$1650/t	\$1800/t
10% discount	242	340	435	529	623
8% discount	272	377	480	582	683
5% discount	327	448	564	680	796

1Q23 NAV (C\$/sh)	\$1200/t	\$1350/t	\$1500/t	\$1650/t	\$1800/t
10% discount	1.67	2.34	3.00	3.65	4.30
8% discount	1.87	2.60	3.31	4.01	4.71
5% discount	2.26	3.09	3.89	4.69	5.49

^Project NPV less central SG&A & finance cost, plus net cash at the time

Production	CY23E	CY24E	CY25E	CY26E	CY27E
LDI prod'n (kt of graphit	13	14	14	15	15
Namibia (kt of graphite	-	22	30	29	31
Total prod'n (000t)	13	36	44	44	46
C1 cost (C\$/t graphite)	1,393	1,319	1,083	1,271	1,135



Source: SCP estimates; *Financial statements incl. LDI / Namibia, excl. Bisset Ck (held in SOTP); net C\$5m equity at spot share price

Resources:			
Ore	%Cg	Graphite (kt)	
Lac des Iles and M. West	4.7Mt	6.3%	298
Okanjande	39.1Mt	5.0%	1,972
Bisset Creek	94.1Mt	1.7%	1,613
Global	138Mt	2.8%	3,884

Ratio analysis	CY23E	CY24E	CY25E	CY26E	CY27E
Average shares on issue (m)	121.3	121.3	121.3	121.3	121.3
Forward EV (C\$m)	81.7	102.0	64.1	58.2	45.2
EBITDA (C\$m)	2.8	19.0	34.0	25.7	32.4
CFPS before w/c (C\$/sh)	(6.9)	(11.8)	18.5	16.1	9.7
EPS (C\$/sh)	-	5.1	12.3	9.6	12.8
Forward EV/EBITDA (x)	28.9x	5.4x	1.9x	2.3x	1.4x
Forward FCF yield (%)	-12%	(0)	34%	29%	18%
PER (x)	-	10.7x	4.5x	5.8x	4.3x

Income Statement	CY23E	CY24E	CY25E	CY26E	CY27E
Revenue (C\$m)	26.4	74.1	91.9	91.5	94.4
COGS + royalty (C\$m)	17.9	50.6	53.4	61.0	57.1
D&A (C\$m)	3.2	7.5	9.2	8.7	9.3

Gross profit (C\$m)	5	16	29	22	28
Exploration (C\$m)	1.0	-	-	-	-
Direct/indirect tax (C\$m)	1.3	3.4	7.9	5.3	7.6
G&A ex site (C\$m)	4.2	4.0	4.0	4.0	4.0
Finance cost (C\$m)	1.9	1.9	1.9	-	-
Other (C\$m)	0.5	0.5	0.5	0.8	0.9

Net income (C\$m) (3.6) 6.2 14.9 11.6 15.5

Cash flow Statement	CY23E	CY24E	CY25E	CY26E	CY27E
Receipts from sales (C\$m)	(3.6)	6.2	14.9	11.6	15.5
Add back depreciation (C\$m)	3.2	7.5	9.2	8.7	9.3
Non-cash tax (C\$m)	-	-	-	-	-
Other (C\$m)	0.5	0.5	0.5	0.5	0.5
Changes in WC (C\$m)	0.5	(5.9)	0.9	1.0	1.2

Cash flow ops (C\$m)	0.5	8.3	25.5	21.8	26.4
Cash for acquisitions (C\$m)	-	-	-	-	-
PP&E (C\$m)	(7.4)	(28.5)	(2.2)	(1.3)	(13.5)
Other (C\$m)	(1.0)	-	-	-	-

Cash flow inv. (C\$m)	(8.4)	(28.5)	(2.2)	(1.3)	(13.5)
Equity issued (C\$m)	5.0	-	-	-	-
Net debt movement (C\$m)	-	-	-	(14.6)	-
Minority / lease (C\$m)	-	-	-	-	-

Cash flow fin. (C\$m) 5.0 - - (14.6) -

Balance sheet	CY23E	CY24E	CY25E	CY26E	CY27E
Cash (C\$m)	0.3	(19.9)	3.3	9.3	22.2
AR + inventory (C\$m)	36.2	45.8	44.9	44.6	43.0
Exploration (C\$m)	14.2	14.2	14.2	14.2	14.2
PP&E assets + others (C\$m)	55.3	76.4	69.3	61.9	66.1
Other (C\$m)	0.5	0.5	0.5	0.5	0.5

Total assets (C\$m)	106.5	116.9	132.3	130.4	146.0
Debt (C\$m)	14.6	14.6	-	-	-
AP + leases	13.8	17.5	32.1	18.1	17.8
Deferred tax/rev (C\$m)	30.0	30.0	30.0	30.0	30.0

Total liabilities (C\$m)	58.3	62.0	62.0	48.1	47.8
S/holders, rsrvs, minor. (C\$m)	70.7	71.1	71.6	72.1	72.5
Retained earnings (C\$m)	(31.4)	(25.2)	(10.2)	1.4	16.8
Liabilities+equity (C\$m)	106.5	116.9	132.3	130.4	146.0

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

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

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