

FAST TRACK TO PRODUCTION?

Last week, **Neo Energy Metals plc (NEO.L)** published the findings of an independent report by mining consultants Erudite Strategies on the economics of the Henkries Uranium Project, based on updated operating and capital costs from the 1979 Anglo American feasibility study, using three potential Neo operating scenarios. In this research note we provide an update to our own numbers to determine a share price target valuation.

Key Points

- The Erudite study shows Henkries can be accelerated into production at a lower capital and operating cost when compared to many of its peer group. All three Neo operating scenarios ("Low", "CPR" & "Initial Target") underline the **positive and robust project economics** from a 10-year mine life at an average uranium price of \$90 per lb.
- At the 'CPR Case' of a 7m lb resource, a **pre-tax NPV8 of \$106.6m** and **IRR of 43.4%** is estimated with a payback of 2.9 years, cash operating costs of \$36.8 per lb. An initial project Capex of \$52.2m and sustaining capital of \$17.3m is calculated.
- Resource expansion drilling is set to start in **H2 2024**, with the objective of increasing the JORC resource to over 10m lb from the current 4.7m lb. Only 10% of the prospective ground at Henkries has been fully tested to date.
- As the CEO explained (6 Jun '24: RNS), Neo "aims to **fast track** the Henkries project to the Target Case, in the shortest time possible". Discussions with "various interested parties" are continuing for "**both offtake and financing options**", which underlines in our view the advanced stage nature of Henkries.

Valuation & Recommendation – Instead of a peer group comparison as used in our previous research analysis (1 Dec '23), in this report we have calculated a risked NPV from the Erudite study results to estimate a valuation and share price-target.

For each operating scenarios, we have applied a '**Development**' (15%) and '**Resource**' (5% to 25%) **Risk** factor to the NPV8 to reflect risks remaining prior to a mine-start for proving up a resource, developing remaining infrastructure, etc., along with a '**Finance Risk**' of 5% for securing CAPEX funds to build a mine. The 'Finance Risk' we assess to be very low, given the involvement of mining financier and entrepreneur **Quinton van der Burgh** and his investment vehicle AUO Commercial Brokerage LLC. We arrive at an estimated risked NPV8 of \$49.0m, \$73.2m and \$118.3m for each operating scenario at an average uranium price of \$90 per lb. By using an estimate for the projected number of shares in issue in 24-months' time, this computes to 2.0p, 3.0p and 4.9p per share for each scenario. We have used an average of these estimates to determine a **price target of 3.33p**.

This does significantly understate Neo's upside potential. For example, a de-risked project at the mining point on an expanded target resource of 10m lb would imply a valuation of 10.3p per share (at \$90 per lb). Moreover, as highlighted in our '**Sensitivity Analysis**', a higher average uranium price of \$120 per lb over the next 10 years, on a 'Initial Target Case' of 10m lb, gives a risked **NPV8 of \$199.9m** (un-risked \$330.1m), implying a price per share of **8.3p to 17.4p**. It is interesting to note the current 0.48p share price is below the bottom of our sensitivity range, suggesting the market assumes a worst-case outcome, with uranium prices at only \$70 per lb over the next 10 years and that the JORC resource will not increase. Our analysis also shows that the risked CPR scenario at \$70 per lb corresponds to the RTO listing price last year of 1.25p, when uranium traded at this price.

We believe the market is unfairly valuing Henkries as an early-stage project, rather than at an advanced late stage, which could be **within 24-months of production**. To this end, we recommend the shares as a '**Buy**' with a price target of **3.33p** per share, an increase of 51% from our previous 2.2p valuation, which therefore offers significant upside potential from the current share price of around 0.48p.



TP 3.33p

MARKET DATA:

Name:	Neo Energy Metals plc
Ticker:	NEO.L
Price:	0.48p
SI:	1430.2m#
Market Cap:	£7m
Sector:	Resources (Uranium)
Listing:	LSE SL – London A2X – South Africa

FINANCIALS: / KEY DATES

Last Placings:	9/10-Nov 23 - £625K @1.25p.
Strategic Inv:	Nov 23 - Jan 25 - £3.5m @ 0.75p
RTO Date:	9 Nov 23
Last Results:	1 Feb 24 – 18 mth's to 30 Sep 23

ACTIVITIES:

Exploration and development of advanced uranium assets in Africa.

KEY ASSETS/ PROJECTS

Henkries uranium deposit in Northern Cape of South Africa.

DIRECTORS & MANAGEMENT:

Jason Brewer (Non-Exec. Chairman)
Sean Heathcote (CEO)
Quinton van der Burgh (Ex Dir)
Bongani Raziya (Non-Exec)
Jackline Muchai (Non-Exec)
James Longley (Non-Exec)
Charles Tatnall (Non-Exec)

SHAREHOLDINGS: (>4%)

AUO Commercial Brokerage LLC#	14.0%
Gathoni Muchai Inv Ltd	13.2%
Brahma Finance (BVI) Ltd	11.3%
O'Sullivan Advisory & Inv Ltd	5.2%
G-Lib Investments Ltd	4.7%
Charles Tatnall	4.3%
James Longley	4.0%

Shares in issue rise to 1697m following balance of investment by AUO by Dec '24.

***First Equity Limited acts as Broker to Neo Energy Metals plc**

ANALYST

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ERUDITE STUDY & FE VALUATION

Section A: Erudite Strategies Study Finding Tables

Physical Parameters Summary	Low Case	CPR Case	Initial Target Case	Notes
Resource / Contained Uranium	4.7mlb	7.0mlb	10.0mlb	
Life of Mine (Years)	10	10	10	
Head Grade ppm U308	399	399	399	ppm – parts per million u308 – Uranium
Recovery Rate	81%	81%	81%	
Total Production (tonnes)	3,807,000	5,670,000	8,100,000	
Average Annual Production (tonnes)	380,700	567,000	810,000	

Fig 1: Key Physical Parameters (Source: Erudite Strategies mining consulting group in Neo Energy Metals RNS, 6 June 2024)

Costs	Low Case	CPR Case	Initial Target Case	Notes
Project Capital	\$41.1m	\$52.2m	\$64.6m	includes Owners Cost and Contingency
<i>Sustaining Capital</i>	<i>\$13.6m</i>	<i>\$17.3m</i>	<i>\$21.5m</i>	<i>includes Tailings Storage Facility</i>
Operating Cash Costs	\$42.2m per lb	\$36.8m per lb	\$33.6m per lb	

Fig 2: Costs (Source Erudite Strategies mining consulting group in Neo Energy Metals RNS: 6 June 2024)

Valuation Return	Low Case	CPR Case	Initial Target Case	Notes
Life of Mine Average Uranium Price.	\$90m	\$90m	\$90m	ZAR/US\$ 18.58 Exc. rate.
NPV8	\$63.9m	\$106.6m	\$195.4m	Pre-Tax, real basis, ungeared, based on est. % economic interest at Production.
IRR	30.1%	43.4%	72.0%	Net Present Value (NPV) at a discount rate of 8%
Payback Period (years)	3.6	2.9	2.5	Internal Rate of Return (IRR).
Sales Revenue Gross	\$342.6m	\$510.6m	\$729.0m	Pre-Tax and Royalties
Project Net Cashflow	\$122.3m	\$225.6m	\$362.9m	

Fig 3: Valuation Return (Source: Erudite Strategies mining consulting group in Neo Energy Metals RNS: 6 June 2024).

Section B: First Equity Valuation

FE est. Risked Valuation at \$90 per lb production	Low Case	CPR Case	Initial Target Case	Notes
Un-risked NPV8 Erudite est.	\$63.9m	\$106.6m	\$195.4m	Erudite Strategies independent result study results Fig 1 to 3.
Resource Risk	5%	15%	25%	Risk of proving up resource required for each operating scenario to 'Measured' JORC.
	(\$3.2m)	(\$16.0m)	(\$48.9m)	
Development Risk	15%	15%	15%	Risk of developing mine and infrastructure prior to production commencing.
	(\$9.1m)	(\$13.6m)	(\$22.0m)	
Finance Risk	5%	5%	5%	Minimal Finance Risk of obtaining mine Capex due to involvement of AUO Commodities.
	(\$2.6m)	(\$3.9m)	(\$6.2m)	
Risked NPV8 – US\$	\$49.0m	\$73.2m	\$118.3m	
Risked NPV8 – GBP£	£38.6m	£57.6m	£93.2m	US\$/GBP£ \$1.27 Exc. Rate.
Risked Price Per share (Current Shares in Issue)	2.70p	4.03p	6.52p	Divided by current Shares In Issue 1430m
Price Per share (Projected SII)	2.03p	3.04p	4.91p	Divided by est. projected Shares In Issue (SII) of 1897m in 24 months' time.
Average Case Valuation	3.33p			Previous valuation of 2.2p – 1 December 2023 Research Note.

Fig 4: First Equity Limited estimated risked NPV and Neo Energy Metals share price at \$90 per lb production (Source: First Equity Limited).

Section C: Sensitivity Analysis

Low Case 4.7m lb	Uranium (U308) Price per lb					
	\$70	\$80	\$90	\$100	\$110	\$120
Un-Risked NPV8	\$21.7m	\$42.8m	\$63.9m	\$85.0m	\$106.1m	\$127.2m
Risked NPV8	\$16.6m	\$32.8m	\$49.0m	\$65.2m	\$81.4m	\$97.6m
Un-Risked Price Per Share	1.14p	2.26p	3.37p	4.48p	5.59p	6.71p
Risked Price Per Share	0.69p	1.36p	2.03p	2.71p	3.38p	4.05p

Fig 5: Low Case Uranium Price Sensitivity (Source: First Equity Limited).

CPR Case 7m lb	Uranium (U308) Price per lb					
	\$70	\$80	\$90	\$100	\$110	\$120
Un-Risked NPV8	\$43.8m	\$75.2m	\$106.6m	\$138m	\$169.4m	\$200.8m
Risked NPV8	\$30.1m	\$51.6m	\$73.2m	\$94.7m	\$116.3m	\$137.8m
Un-Risked Price Per Share	2.31p	3.96p	5.62p	7.28p	8.93p	10.59p
Risked Price Per Share	1.25p	2.14p	3.04p	3.93p	4.83p	5.72p

Fig 6: Competent Person Report (CPR) - Case Uranium Price Sensitivity (Source: First Equity Limited).

Target Case 10m lb	Uranium (U308) Price per lb					
	\$70	\$80	\$90	\$100	\$110	\$120
Un-Risked NPV8	\$105.6m	\$150.5m	\$195.4m	\$240.3m	\$285.2m	\$330.1m
Risked NPV8	\$64.0m	\$91.1m	\$118.3m	\$145.5m	\$172.7m	\$199.9m
Un-Risked Price Per Share	5.57p	7.93p	10.30p	12.67p	15.04p	17.40p
Risked Price Per Share	2.65p	3.78p	4.91p	6.04p	7.17p	8.30p

Fig 7: Target Case Uranium Price Sensitivity (Source: First Equity Limited).

Appendix 1:

HENKRIES PROJECT OVERVIEW

Neo Energy currently holds up to a 70% stake in the **Henkries** Uranium Project located in the Northern Cape Province of South Africa, covering an area of 742.87 sq. km. The other 30% project interest is owned by Wavecrest Investments, a South African Black Empowerment partner.

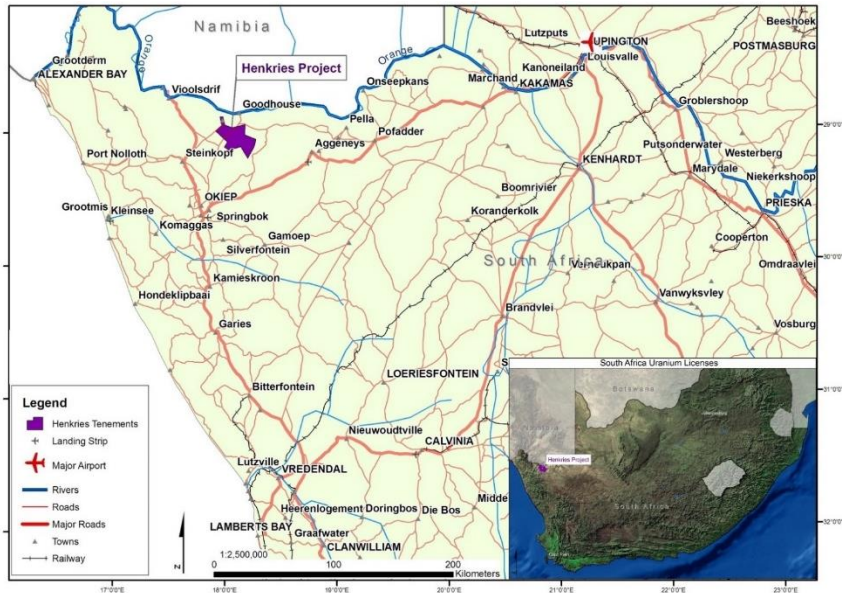


Fig 8: Henkries project location in Northern Cape Province of South Africa (Source CPR for Henkries – 22 Sept '23).

The uranium deposit was discovered by mining major Anglo-American in 1976, which then went on to drill around 7,600 metres at '**Henkries Central**' and around 2,080 metres at '**Henkries South**' and '**Henkries North**' to define a resource estimate. Anglo American also completed a feasibility study, which included a large amount of metallurgical testwork and process design.

From Anglo American's work it was established that the 'Henkries Central' deposit is close to surface, mostly less than 8 metres in depth. This therefore means that mining should be low-cost, especially when considering that no blasting or crushing is required, with only minimal grinding needed.

We understand that over \$30m has been spent on historic exploration, drilling, test-pitting, mining and other work connected with the feasibility study by previous project owners.

Due to the drop in uranium prices and sentiment following the 1979 Three-Mile Island incident in the USA, **Anglo American** took the decision not to develop the project. The only subsequent exploration on the project area was undertaken in 2008 and 2009 by UK listed **Niger Uranium Limited**.

Appendix 2:

RESOURCE ESTIMATE

In addition to the JORC resource estimate highlighted in Fig 9, an exploration target of 2.1m to 2.9m tonnes at a grade of 230 to 315 ppm, with 1.1m to 2.0m lbs of contained uranium, was estimated as part of the Competent Person Report (CPR) assessment in the Nov 2023 prospectus for the 'Henkries North' deposit.

These above figures probably understate the significant exploration upside given that only 10% of the prospective ground has been fully tested. Moreover, there could be potential for Neo to expand its project footprint on adjacent properties.

A drilling resource expansion programme will commence in H2 2024, with the objective of increasing the JORC resource to over 10mlb's of uranium.

Henkries JORC resource <i>(100 ppm cut-off)</i>	Million Tonnes	Average Grade Uranium (ppm)	Average Dry Density	Million (lbs) Uranium Contained
Henkries Central (HC)				
Indicated	1.97	635	1.08	2.75
Inferred	1.74	211	1.38	0.81
HC Sub Total	3.71	436	1.22	3.57
Henkries North (HN)				
Inferred	1.63	315	1.13	1.14
HN Sub Total	1.63	315	1.13	1.14
TOTAL RESOURCE				
	5.34	399	1.19	4.70

Fig 9: Henkries JORC resource completed by Minsearch Geological Consulting (Pty) Ltd – Sept '23 for Nov '23 RTO prospectus.

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