Neo Energy Metals plc (NEO.L)* 1 Dec 2023

First Equity

Neo well placed to move into pole position at Henkries

Neo Energy Metals plc (NEO.L) quietly gained a listing on the Main LSE Board last month following the reverse take-over of shell company Stranger Holdings plc.

What has not been quiet is the continuing surge in uranium prices during 2023, which has doubled in price in the last nine months to around **$80 per lb**, as demand rises in anticipation of increased nuclear power reactor development, as the World seeks to decarbonise and secure reliable base-load energy sources.

In this initiation note, we examine Neo Energy's **Henkries uranium project** to understand where value can be added for investors so that a valuation and price target for the shares can be determined.

Key Points

- There are **very few pure play uranium** focused companies listed on the London markets. Neo Energy is the only uranium-listed equity on the main LSE Board.

- The well-known and successful South African mining entrepreneur **Quinton van der Burgh** will, via his investment vehicle AUO Commercial Brokerage LLC, be investing £3.5m into Neo Energy over the next 12 months to build a 28.1% stake.

- The Group's **Henkries** uranium project was originally discovered by mining major Anglo American in 1976, which then completed a feasibility study in the late 1970s. In total around **$30m** has been spent in historic exploration and development work, a figure that surpasses the current market cap of £10m ($12m).

- The Henkries deposit is **very shallow** (5 to 8 metres depth), which would require no blasting or crushing and could therefore be a very low-cost mining operation. It also benefits from being near power, water and road infrastructure.

- The Group plans to update the **feasibility study** to include **drilling** around 7,000 metres to improve the mineral resource, with the objective of reaching a mining decision point within the next two years.

- Underlying the exploration upside is the fact that **only 10%** of the prospective ground at Henkries has been fully tested to date. There could also be potential to expand the project's footprint into adjacent ground.

Valuation & Recommendation

We have adopted a peer group comparison approach to determine a valuation for Neo Energy Metals plc, by taking a closer look at the project numbers at Aura Energy. From this we have derived an estimated valuation for Neo of £32m, representing 40% of Aura's current market cap, or 2.20p per share based upon the diluted number of shares in issue following the completion of AUO Commercial Brokerage LLC's investment into Neo.

As work on the feasibility study progresses, with further drilling and project de-risking events, we would anticipate our estimate and price target would increase, assuming such news-flow proves positive. Furthermore, once the feasibility study is updated and project NPVs calculated we will be able to determine a risked NPV to provide what is likely to be an enhanced valuation estimate, especially if uranium prices continue to trend upwards.

With all the above thoughts in mind, we recommend **Neo Energy Metals plc** as a '**Buy'** with an initial price target of 2.20p per share representing a potential upside of over 150% from the current share price of around 0.83p.

BUY

TP 2.20p

MARKET DATA:

Name:	Neo Energy Metals plc
Ticker:	NEO.L
Price:	0.83p
SII:	1256.4m #
Market Cap:	£10m
Sector:	Resources (Uranium)
Listing:	LSE SL – London

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

ACTIVITIES:

Exploration and development of advanced uranium assets in Africa.

KEY ASSETS/ PROJECTS

Henkries uranium deposit (70%) in Northern Cape of South Africa.

DIRECTORS & MANAGEMENT:

Jason Brewer (Non-Exec. Chairman)
Sean Heathcote (CEO)
Bongani Raziya (Non-Exec)
Jackline Muchai (Non-Exec)
James Longley (Non-Exec)
Charles Tatnall (Non-Exec)

SHAREHOLDINGS: (>4%)

Gathoni Muchai Inv Ltd	17.9%
Brahma Finance (BVI) Ltd	12.9%
O'Sullivan Advisory & Inv Ltd	5.9%
G-Lib Investments Ltd	5.3%
AUO Commercial Brokerage LLC #	4.8%
Hargreaves Lansdown Nom'	4.7%
Charles Tatnall	4.1%

 # Shares in issue rise to 1663m following balance of investment by AUO by Dec '24 to increase holding to 467m shares (28.1%)

First Equity Limited acts as Broker to Neo Energy Metals plc

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ADMISSION, FINANCINGS & KEY PEOPLE

Neo Energy Metals plc (NEO) gained a listing on the London Stock Exchange on 9 November 2023 - following a reverse take-over (RTO) of shell company Stranger Holdings plc.

In the RTO Placing and in a subsequent subscription shortly afterwards, £0.62m in funds were raised at the re-listing price of 1.25p. A further £3.5m in funds are being injected into the Group in a strategic financing by AUO Commercial Brokerage LLC in staged tranches until December 2024 at an issue price of 0.75p.

AUO Commercial Brokerage LLC is owned and controlled by **Quinton van der Burgh**, a well-known and successful South African based mining, media and telecoms entrepreneur##. Quinton has "developed over 47 projects to the mining stage" in the last 20 years, as he explained when Q Global Commodities Group (in which he is CEO) announced its agreement to invest up to £3.75m into Marula Mining in January 2023.

Sean Heathcote is the CEO of Neo Energy, a metallurgist with over 30 years' industry experience, with operational management experience at mining majors such as Billiton and Anglo American. During his career, Sean has participated in the development of over 100 mineral resource projects, including 50 feasibility studies *(Source: Nov '23 Stranger Holdings plc Prospectus, page 67).*

Neo Energy is headed up by Non-Executive Chairman **Jason Brewer**, a serial resources director and deal maker, who is the CEO of AQSE listed **Marula Mining plc** (MARU.L), a battery metals investment and exploration company. Against the backdrop of a challenging market for junior resource companies, the shares in Marula Mining have significantly outperformed in the last 12-months, rising over three-fold from 2.4p to 11.6p.

A recent StockBox talk with Quinton van der Burgh explains his investment and mining strategy - https://www.youtube.com/watch?v=j5VOfPzrxCo

HENKRIES PROJECT

Neo Energy 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.

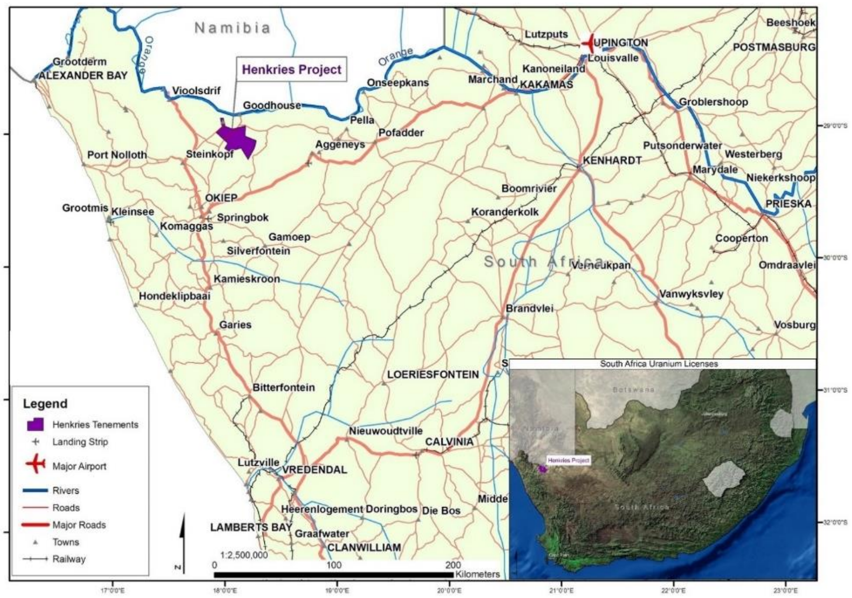

Fig 1: Henkries project location in Northern Cape Province of South Africa (Source CPR for Henkries – 22 Sept '23).

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.

An expected mining recovery rate of 85% was established, although with advances in uranium recovery technologies and processing since the 1970s, it is likely a higher recovery rate can now be achieved.

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.**

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. Most of this was spent by Anglo American in the 1970s. Converting this historical exploration/development expenditure into present day US dollar amounts, would result in a much larger figure than $30m. Given the significant weakness in the SA Rand compared to US Dollar over the last 50 years, it is not possible to meaningfully calculate a present-day inflation adjusted expenditure sum.

With the resurgence in uranium prices over the last year and urgent global need to develop non-carbon sources of energy from nuclear power to meet 24/7 requirements, the value and importance of developing Henkries has now come to the fore.

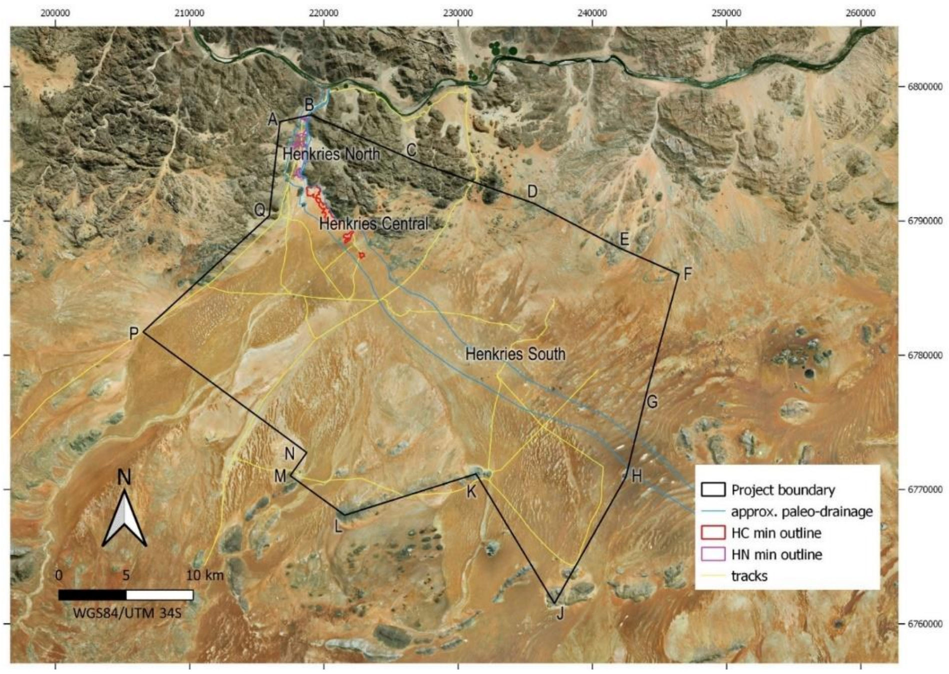

Fig 2: Henkries project over a satellite image (Source CPR for Henkries – 22 Sept '23).

RESOURCE ESTIMATE

In addition to the JORC resource estimate highlighted in Fig 1, 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 on Neo Energy's project licence area, given that only 10% of the prospective ground has been fully tested. Moreover, there could be potential for the Group to expand its project footprint on adjacent properties.

Henkries JORC resource *(100 ppm cut-off)*	**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 3: Henkries JORC resource completed by Minsearch Geological Consulting (Pty) Ltd – Sept '23 for Nov '23 RTO prospectus.

EXPLORATION & DEVELOPMENT PLANS

Neo Energy's objective over the next 12 months will be to update the Anglo-American feasibility study and then reach a mine decision point.

This will involve drilling around 7,000 metres to increase the mineral resource size and resource estimation confidence categories. Drilling will focus on a potential lateral expansion and deeper mineralisation at Henkries Central and Henkries North. Exploration work will also be directed towards potential new uranium deposit discoveries. The management believe the Kabib portion of Henkries South shows "high potential for new uranium discoveries". Drilling is expected to commence in Q1 - 2024 and take up to 6 months to complete.

On the technical side, metallurgical testwork will be conducted to update the process flow sheet and on improving acid leach recoveries using newer technologies developed in the mining industry since 1979.

An updated Preliminary Economic Assessment (PEA) with NPV estimate calculations could be completed and announced by the end of Q1 2024.

URANIUM MARKET

There are several factors that have led to increased demand for uranium in the last year that are likely to continue to support higher uranium prices. The main factors being:

- The decarbonisation trend away from fossil fuelled powered cars, steel production, etc, along with rapid global population and wealth growth is expected to lead to an increased demand for electricity and sustainable low carbon energy sources, particularly those providing base load support such as nuclear power.

- Current boom in building of nuclear reactors anticipated to lead to higher demand for uranium. Around 60 reactors are under construction to add to 440 already in operation globally in 32 countries. A further 110 reactors are on order or planned, most of which are in Asia. ###

- Fragile global supply. Uranium production from largest country producer Kazakhstan (43% of world supply 'WS' in 2022) could be impacted by its close political and supply chain link ties with Russia. Such issues already evident from recent political instability in Niger (4%-WS) and war/sanctions on Russia (5%-WS). ###

- The mining industry will need to significantly increase its development pipeline of new uranium projects by 2040 to avoid supply disruptions.

Data Source: World Nuclear Association – November 2023.

To understand more behind the dynamics leading to the surge in uranium demand, we would encourage you to view the following YouTube videos -

"Commodity Underinvestment to Lead Supply Shock with Rick Rule" -
www.youtube.com/watch?v=ax55STReZ4E

"Askar Batyrbayev – all you need to know about the current uranium market" - www.youtube.com/watch?v=jkCvqU0eEfA

VALUATION RATIONALE

Once the Company has updated the feasibility study or/and PEA for Henkries, we will be able to calculate a risked NPV to determine a share price target for Neo Energy Metals plc. In the meantime, prior to the completion of a feasibility study and to provide market guidance in this note, we will conduct a peer group comparison.

What has been very evident from our analysis is the lack of pure play uranium development investment opportunities available to investors on the London markets, i.e. both AIM and LSE main board companies. There are many uranium focused exploration and development listed companies on the Canadian and Australian exchanges. However, given the much higher transaction costs faced by trading in these markets and time differences, investing in such companies is impractical to all but most UK based investors.

At the broader end, **Yellow Cake** (YCA.L) – Mcap £1.2bn, invests direct in the uranium market through a physical holding of uranium oxide concentrate and uranium related commercial activities. Another London listed uranium focused equity is **Geiger Counter Limited** (GCL.L) –£84m, which is a manged closed end fund of uranium investments.

There are a few exploration and development junior resource companies listed in London with uranium projects such as **Panther Metals** (PALM.L) - £2m, **Power Metal Resources** (POW.L) - £12m and **Thor Energy** (THR.L) - £4m. However, none of these are pure uranium plays, as they also have projects prospective for other commodities. Moreover, their uranium projects are early stage compared to Neo Energy Metals'.

The nearest comparative uranium listed company on a London market (AIM) is **Aura Energy Limited** (AURA.L) – Mcap £92m, which has two advanced assets, being its '**Tiris'** uranium Project in Mauritania and a vanadium and mixed commodity project, '**Haggan'** in Sweden, in which uranium accounts for around 14% of the resource.

Aura Energy Mineral Resources'			
Project	**Country**	**Resource**	**NPV'8**
Tiris	Mauritania	113mt @ 236 ppm Containing 58.9m Mlbs uranium	$226m
Haggan	Sweden	59mt vanadium and mixed commodity resource, including 14% uranium	$456m to $1,334m

Fig 4: Aura Energy Limited projects overview.

Although Aura Energy's resource at Tiris is much larger compared to Henkries, with the potential to improve grade through leach feeding, the country risks appear enormous. This is evidenced by the fact that the UK Foreign, Commonwealth & Development Office (FCDO) currently advises against "all but essential travel" and "all travel" to most parts of Mauritania, including the area of the Tiris project due to the very high terrorist risk. Although the high-risk nature of operating in Mauritania is balanced to an extent at Group level by the much lower risks of developing the Haggan project in Sweden.

Also of note is the very remote location of Tiris in Mauritania, with the nearest town over 500 kms away, leading to potential labour recruitment issues and expenses. Moreover, a significant amount of capex will be needed for power, water, transport, and other infrastructure which are not present at Tiris. In comparison, Neo Energy's Henkries project has none of these issues, being located around 30 kms from the nearest town (Steinkopf), with readily available power, water and other infrastructure.

At both Tiris and Haggan, we question the use by Aura Energy of using an NPV-8 discount rate calculation, instead of the more commonly used NPV-10, which we would recommend companies use in today's higher interest rate environment.

Considering the above downside issues, but the fact Aura's assets are currently more advanced than Neo's, we believe Neo Energy Metals should command a valuation at this stage that is at least **40% of the market cap of Aura Energy (£92m),** which implies a valuation of around £32m or 2.20p per share on a diluted basis following the completion of AUO Commercial Brokerage LLC's investment.

Once the feasibility study is updated at Henkries and project moves nearer to a mine decision, we believe the valuation for Neo Energy Metals is very likely to overtake that of Aura Energy.

Research Document Sources:

Aura Energy Ltd Investor Presentation – 2 November 2023.

Marula Mining plc RNS – 31 January 2023.

Neo Energy Metals plc, Corporate Presentation, Long and Short versions – May 2023.

Stranger Holdings plc RTO Prospectus – 9 November 2023.

World Nuclear Association – November 2023.

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There is no guarantee the share price will trade at or near to the share price target valuation estimates quoted in this report at any time in the future, as this will depend upon on a number of factors for example prevailing sentiment towards the company, its sector, country of operations and project commodity being mined or developed, investor risk appetite and total amount of investor funds capable of being allocated towards this type of investment.

Important Declarations

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

First Equity Limited clients and employees hold shares and warrants in Neo Energy Metals plc.

First Equity Limited is a member of the London Stock Exchange

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