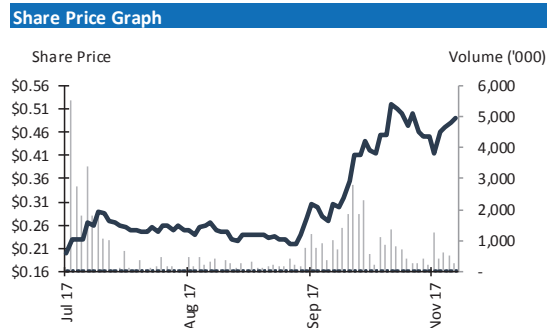




American Pacific Borate & Lithium Limited (ABR)

Strategically located US borate with lithium upside

Recommendation	Speculative Buy
Previous	N/A
Risk	Very High
Price Target (A\$)	\$0.62
Previous	N/A
Share Price (A\$)	\$ 0.49
ASX Code	ABR
52 week low - high (A\$)	0.20-0.52
Capital structure	
Shares on Issue (M)	170
Market Cap (A\$M)	83
Net Cash/(Debt) (A\$M)	12
EV (A\$m)	71
Options on issue (M)	15
12mth Av Daily Volume ('000)	721
Board	
Mr Harold (Roy) Shipes	Non-Executive Chairman
Mr Michael Schlumpberger	Managing Director
Mr Anthony Hall	Executive Director
Mr John McKinney	Non-Executive Director
Mr Stephen Hunt	Non-Executive Director
Major Shareholders	
Atlas Precious Metals Inc.	29.0%



Analyst: Matthew Chen +61 2 9993 8130
matthew.chen@fostock.com.au
 The analyst owns no ABR shares.

Talking Point mostly discusses stocks for which Foster Stockbroking does not provide formal research coverage. It combines both the dealing desk's market view and basic research analysis. The aim is to offer clients additional investment ideas that lie outside the firm's universe of formally covered stocks. Occasionally, some stocks under formal research coverage will also be discussed in Talking Point.

Event:

- We provide an overview on American Pacific Borate & Lithium (ABR).

Analysis:

- **ABR is a borate and lithium developer with a 100% interest in the Fort Cady project in California, US.**
- **Maiden JORC Resource Estimate to be released this quarter.** Historical non JORC Resource Estimate of 115Mt B₂O₃ (boric oxide) at 7.4%, equivalent to 13.1% H₃BO₃ (boric acid). This includes a high grade estimate of 69Mt at 9% B₂O₃, equivalent to 16% H₃BO₃.
- **Steady upcoming news flow: Scoping Study to be released this quarter,** with Scoping progress updates recently announced. **Drilling to be completed by CY17e end.**
- **Low initial capex for Phase 1 operations.** The company contemplates **US\$80-90M initial capex for a Stage 1 90ktpa boric acid production,** which includes a 25% contingency fee.
- **Modular approach to asset development:** further phases to scale up production will be funded by project cash flow. Phase 2 will add a lithium circuit. Phase 3 will look to triple boric acid and lithium production to 270ktpa, while Phase 4 will incorporate a Mannheim SOP plant.
- **High margin, low cost output with an expected C1 cost of US\$345-383/t boric acid.** US boric acid forecast is US\$800-1,000/t (Roskill). **Option rich with lithium wildcard:** the company is testing for lithium enriched brines in the central areas of the evaporite adjacent to the borate deposit. Historical estimate of lithium is at 80Mt at 313ppm Li.
- **Strategic location and US\$50M suite of infrastructure in place** including gas and grid electricity, port access, proximity to interstate highway and rail line, and an existing pilot plant with associated permitting.
- **Experienced management and board** with considerable experience in developing and commercialising resources.

Earnings and Valuation:

- We have derived a **risked valuation of \$0.62 per ABR share.** Our valuation is underpinned by a **risked NPV₁₀ of A\$245M** for Fort Cady, assuming US\$85M initial capex for 85ktpa boric acid production. First production to start in FY21e, and production trebling to 270ktpa in FY25e. We assume a price of US\$800/t for boric acid with C1 cost of US\$383/t. On an unrisksed basis, we have derived a valuation of \$1.52 per ABR share.

Recommendation:

- We **recommend ABR as a Speculative Buy** due to its strategic location, low capex, high margin project, supported by a long life high grade asset.
- We have a **price target of \$0.62** in line with our risked valuation, but note the possibility of a further rerate from a number of upcoming catalysts, including: 1) further drilling results in the current half; 2) maiden JORC Resource announcement in the current quarter; 3) full Scoping Study announcement in Q4 CY17e; 4) Definitive Feasibility Study in CY18e.