



## Adriatic Metals plc (ADT.ASX)

*King grade has surely come*

### Disclosures

The analyst does not own ADT securities. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) do not own ADT securities. Cranport Pty Ltd does not own ADT securities. Refer to disclosures at end of report.

### Recommendation

Speculative Buy  
Previous n/a  
Risk Very High

### Price Target

\$1.33  
Previous n/a

### Valuation

\$1.33  
Methodology 1.0x price/risk NPV

### Share Price (A\$)

\$ 0.870  
ASX Code ADT

52 week low - high (A\$) 0.17-1.12

### Capital structure

Shares on Issue (M) 170

Market Cap (A\$M) 148

Net Cash/(Debt) (A\$M) 13

EV (A\$M) 135

Options (M) 19

Fully diluted EV (\$M) 152

### Board

Peter Bilbe Non-Executive Chairman

Julian Barnes Non-Executive Director

Paul Cronin Executive Director

Eric de Mori Non-Executive Director

Milso Bosnjakovic Non-Executive Director

Michael Rawlinson Non-Executive Director

### Substantial shareholders

Paul Cronin 12.9%

Milos Bosnjakovic 12.2%

Eric de Mori 8.5%

Sandfire Resources 7.7%

### Share price



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**Talking Point** mostly discusses stocks for which Foster Stockbroking does not provide formal research coverage. It combines both a 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.

### Event:

- We initiate research coverage on Adriatic Metals plc (ADT).

### Investment Highlights:

- ADT is a base metals exploration company with its flagship asset being its 100% owned Rupice project in Bosnia and Herzegovina. The company reported the average intercept drilled in 2018 to be 26m with grade of 9.1% Zn, 5.8% Pb, 0.9% Cu, 279g/t Ag, 2.9g/t Au, and 43% BaSO<sub>4</sub> from 56 holes, translating to a very high Zn eq grade vs peers.
- Mineralisation at Rupice remains open along strike to both the north and south, as well as to the east. We estimate cumulative strike to be 560m from two parallel lenses. ADT is continuing its drill campaign and we expect a maiden JORC Resource some time in mid-CY2019.
- While no JORC Resource has been disclosed for Rupice, we have estimated a conceptual resource of 7.7Mt at 9.1% Zn, 5.8% Pb, 0.9% Cu, 279g/t Ag, 2.9g/t Au from the company's disclosed drill hole data. We believe this could sustain a seven year mine life at 1Mtpa.
- Veovaca is ADT's other project which was previously mined and has a JORC Resource of 4.4Mt at 2.0% Zn, lower grade than Rupice.
- ADT is in the process of submitting for exploitation permits, a key milestone in eventually being able to mine Rupice or Veovaca. The company has received acknowledgement of Reserves Elaborat – a non-JORC equivalent of mineable reserves - from the Bosnia Federal Ministry. ADT is required to obtain an exploitation permits by May 2020.

### Earnings and Valuation:

- Coupled with our estimate of 7.7Mt of Resource, we derive an unrisks NPV<sub>10</sub> of Rupice of \$1,012M. While no economic metrics have been disclosed for Rupice, we used comparable ASX listed peers to estimate likely capital and operating costs for a 1Mtpa operation. We estimate annual EBITDA of \$363M.
- On our estimates the project has attractive metrics of 4.4x NPV/capex and 126% IRR, due to low corporate tax rate of 10% and high Zneq grade of 19%, the latter we estimate to be the highest of ASX listed peers. This should translate to lowest quartile C1 cash cost.
- Our risked valuation of ADT is \$1.33/share, which includes the assumption of a future dilutive equity raising, assuming pre-production capex of project to be funded two-thirds equity and one-third debt.

### Recommendation:

- We initiate on ADT with a Speculative Buy recommendation based on our risked NPV share valuation of \$1.33.
- Catalysts for the stock include 1) Maiden JORC Resource for Rupice; 2) Further drill results at Rupice and regional targets; 3) Submissions for Exploitation permits; 4) Receipt of Exploitation permits; and 5) Scoping Studies for Rupice and Veovaca.