

Blue Oceans Equities View

Cobalt Blue Holdings (ASX:COB)

Date: 31 July 2017

Stock Price: A\$0.19

Market Capitalisation A\$19m

The company has some very ambitious aspirations of becoming “a long-life top 10 cobalt miner” and some of the recent announcements have been very encouraging. While this stock is probably too small for most of our institutional clients yet... in my view there is definitely scope for that to change rapidly if the PFS in Q2 CY18 confirms the recent Scoping Study outcomes.

Clearly cobalt is one of the key battery thematic commodities... like lithium and graphite... but importantly cobalt is significantly less abundant.

Important context on cobalt – there are very limited viable cobalt exposures for institutional investors

- ~50-60% of cobalt supply comes from the DRC (sovereign risk is too high for most institutional investors).
- ~95% of cobalt supply as by-product from copper or nickel mines (i.e. % of revenue of cobalt is too small to provide sufficient cobalt exposure).
- Only ~2-5% of the cobalt supply comes from primary cobalt deposits (where % revenue is well over 50% cobalt).

Cobalt Blue (COB)

- **Thackaringa project is based in NSW** (near Broken Hill) – much more palatable sovereign risk than many jurisdictions (especially the DRC!).
- **Project has scale:** 55mt in resource 910ppm cobalt.
- The company is targeting a 5mtpa project producing ~4ktpa of cobalt sulphate (historically attracts a ~10% premium price over cobalt metal).
- **Where does the key risk lie? Metallurgy**
 - o A number of previous owners have tried to get the metallurgy to work without success (the *key risk* for COB is that it suffers the same fate).
 - o But if COB can come up with a viable metallurgical solution... the upside could be *very* substantial.
 - o From what we can gauge from the company’s releases, the initial metallurgical work undertaken during the Scoping Study has been very encouraging.
 - o The company recently stated **testwork during the Scoping Study confirmed “~90% cobalt recovery from in ground to payable metal”**.

- Testwork in the Scoping Study was only small scale... but is now moving to larger scale ~1,000kg tests as part of the PFS (results due in Q4 CY17 – a key catalyst for COB).
- **What might success look like?**
 - If the larger scale metallurgical testing continues to confirm the smaller scale test results – i.e. 90% recoveries from ore to payable metal.
 - While we won't know any of the project capex/opex until completion of the PFS in Q2 CY18, we see potential for COB to become:
 - (1) A large scale producer;
 - (2) An essentially pure-cobalt play;
 - (3) In a safe jurisdiction (Australia).
 - **We believe this would make COB very appealing to global investors – as it would become the only listed exposure globally which ticks all three of these boxes** (to our knowledge)
- **Substantial potential value**
 - While we won't have a good handle on capex and opex until the PFS, the model below provides our indicative estimates of what Thackaringa *might* look like, if the PFS metallurgical testwork confirms the Scoping Study outcomes.
 - Bottom line: The NPV of Thackaringa *could* potentially be hundreds of millions of dollars... vs. the current fully diluted market cap of ~A\$20m with ~A\$6m in cash (an EV of just A\$14m).
 - As such, we regard COB as a very interesting risk/reward proposition.

Analyst: Steuart McIntyre

Steuart McIntyre
Senior Resources Analyst



BLUE OCEAN EQUITIES

Level 29, Aurora Place, 88 Phillip Street, Sydney NSW 2000

dir +61 2 8072 2909 mob +61 413 555 609 main +61 2 8072 2988

email steuartmcintyre@boeq.com.au

web www.blueoceanequities.com.au

Disclosure: I recently purchased shares in Cobalt Blue (after the release of the Scoping Study)

COB Simple Model - What Might Thackaringa Look like? (PFS due in Q2 CY18)

Thackaringa - Simple Model			0	1	2	3	4	5	6	7	8	9	10
US\$ Cobalt Price	US\$/lb	20	Spot ~US\$26/lb	20	20	20	20	20	20	20	20	20	20
Australian Dollar	FX		Spot ~80c	0.75	0.74	0.73	0.72	0.72	0.72	0.72	0.72	0.72	0.72
A\$ Cobalt Price	A\$/lb			27	27	27	28	28	28	28	28	28	28
Plant Throughput	mtpa	5.0	Target 5mtpa										
Cobalt Grade	ppm	890	Resource: 55mt @ 910ppm Cobalt										
Recovery	%	90%	Scoping Study recoveries ~90% (from ore to payable cobalt)										
Payable Cobalt Production	ktpa	4.0	Target 4ktpa	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
	mlb pa	8.8		8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Operating Cost Post Credits	A\$/lb	10.00	Don't know yet	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
AISC	A\$/lb	11.53		11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5
AISC Margin	%	42%		42%	42%	42%	42%	42%	42%	42%	42%	42%	42%
Free Cash Flow													
Initial Capex	A\$m	450	Don't know yet	450									
Operating Margin	A\$m			150	154	157	157	157	157	157	157	157	157
Cash Tax	A\$m	30%		29	30	31	31	31	31	31	31	31	31
Sustaining Capex (% of initial capex)	A\$m	3%		14	14	14	14	14	14	14	14	14	14
Free Cash Flow	A\$m			(450)	108	110	112	112	112	112	112	112	112
Discount Rate (real)	%	8%	i.e. 8% real or 10% nominal										
NPV post-tax (un-risked)	A\$m	275											
IRR post-tax	%	21%											

Source: Based on **Company Reports** & **Blue Ocean estimates**

Sensitivity Analysis

Hit F9 to recalculate tables

NPV post-tax (A\$m)		Cobalt Price (US\$/t)				
		15	20	25	30	35
Discount Rate	8%	52	349	645	942	1,238
(Nominal)	10%	10	275	540	805	1,071
	12%	(26)	212	451	689	928
IRR post-tax (100%)		Cobalt Price (US\$/t)				
		15	20	25	30	35
	9%		21%	32%	42%	52%

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