Speculative

See key risks on page 8, and early stage company risk warning on page 10.
Speculative securities may not be suitable for Retail clients.

29 June 2021

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Alpha HPA Ltd (A4N)

Advancing to production from 2022

Recommendation
Buy (unchanged)
Price
$0.51
Valuation
$0.83 (previously $0.81)
Risk
Speculative

GICS Sector

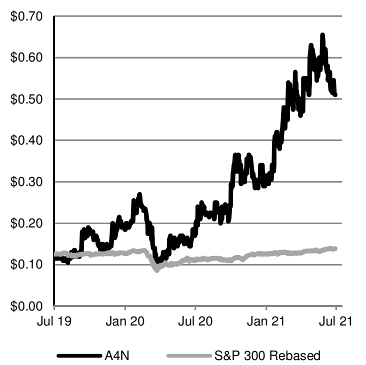
Materials

Expected Return	
Capital growth	63%
Dividend yield	0%
Total expected return	63%
Company Data & Ratios	
Enterprise value	$349m
Market cap	$403m
Issued capital	790m
Free float	90%
Avg. daily val. (52wk)	$536,870
12 month price range	$0.165-$0.675

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.63	0.51	0.17
Absolute (%)	-19.0	1.0	200.0
Rel market (%)	-21.7	-7.4	176.8

Absolute Price



SOURCE: IRESS

Precursor Production Facility to accelerate cash flows

A4N is now funded to commence the first stage of development at its HPA First Project, a Precursor Production Facility (PPF). The PPF will fast track the production of commercial volumes of A4N's aluminium precursors used in aluminium-bearing cathodes of certain lithium ion batteries. The facility has an estimated capital cost of $28m and A4N expect it to generate annual free cash flow of $8-11m from late 2022. A4N recently completed a $50m equity placement to support the PPF's construction.

De-risking product acceptance & partnerships

The PPF accelerates A4N's commercial sales by around 12 months. It will ultimately be incorporated as a dedicated manufacturing unit for the Al-precursor #2 product in A4N's full scale HPA First Project plant at Gladstone, Queensland. The PPF is being developed to cater for the significant demand for A4N's high purity products following the company's market outreach programs over the last twelve months. Bringing forward production will enable A4N to become a participant in the lithium ion battery supply chain, further de-risk customer acceptance of its high purity aluminium and alumina products and strengthen relationships with key suppliers.

Investment view: Buy (Speculative), Valuation $0.83/sh

A4N's high purity aluminium products have applications in lithium ion battery and micro-LED manufacturing; technologies at the forefront of the global decarbonising theme. Market outreach programs continue to expand A4N's product suite, applications and potential customer base. We believe that it is increasingly likely that the commercialisation of A4N's proprietary process could involve investments beyond its initial Gladstone plant. Catalysts ahead include pending project approvals, offtake agreements and financial approval, all expected in 2H 2021.

A4N is a development company with prospective operations and cash flows only. Our Speculative risk rating recognises this higher level of risk and volatility of returns.

Earnings Forecast

Year ending 30 June	2021e	2022e	2023e	2024e
Sales (A$m)	-	-	13	247
EBITDA (A$m)	(2)	(3)	(1)	148
NPAT (reported) (A$m)	(2)	(3)	(9)	93
NPAT (adjusted) (A$m)	(2)	(3)	(9)	93
EPS (adjusted) (¢ps)	(0.3)	(0.3)	(0.8)	8.9
EPS growth (%)	na	na	na	na
PER (x)	-178.8x	-146.4x	-62.6x	5.7x
FCF Yield (%)	-1%	-30%	-33%	6%
EV/EBITDA (x)	-169.5x	-109.1x	-545.1x	2.4x
Dividend (¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	-	-	-	-
ROE (%)	-5%	-2%	-5%	40%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Advancing to production from 2022

Precursor Production Facility accelerates cash flows

A4N is now funded to commence the first stage of development at its HPA First Project, a Precursor Production Facility (PPF). The PPF will fast track the production of commercial volumes of A4N's aluminium precursor products which are used in aluminium-bearing cathodes of certain lithium ion batteries. It will be located on the same Gladstone site as A4N's proposed HPA First Project and will ultimately become an integrated unit within this facility. The PPF will be the next step in A4N's path to commercial production following extensive test work at the company's Brisbane pilot plant and market outreach to the global lithium ion battery and LED manufacturing supply chains.

Regulatory approvals are expected in the September 2021 quarter for construction to commence in the December 2021 quarter supporting first precursor production from mid-2022.

The PPF has an estimated capital cost of $28m and A4N expect it to generate annual revenues of $10-15m and free cash flow of $8-11m from late 2022. Orica Ltd (ASX:ORI, not rated) will supply key chemical reagents and offtake process by-products as contemplated under the full scale HPA First Project development.

Capital raising completed to support PPF development

Concurrent with announcing the proposed PPF, A4N has raised $50m through a $0.55/sh placement to institutional and sophisticated investors. The raising is to support the $28m PPF development and HPA First Project design, procurement of long lead time items, land acquisition and general working capital.

Aluminium precursors' high-tech applications

A4N's Al-precursors are high purity (99.999% or 5N) aluminium-based compounds with applications in fast-growing technology markets. A4N has identified its focus 5N precursors as:

- **5N Precursor #1 (Aluminium nitrate-hydrate):** Applications include specialty coatings, LED phosphors for mini and micro LED displays, lithium ion battery electrode coatings, laser scintillators; and
- **5N Precursor #2 (Aluminium sulfate-hydrate):** Applications include the manufacture of lithium ion battery cathode active materials (in nickel-cobalt-aluminium (Tesla) and nickel-cobalt-manganese-aluminium (GM) battery chemistries).

PPF WILL PRODUCE AROUND 200TPA OF PRECURSOR #1 OR PRECURSOR #2

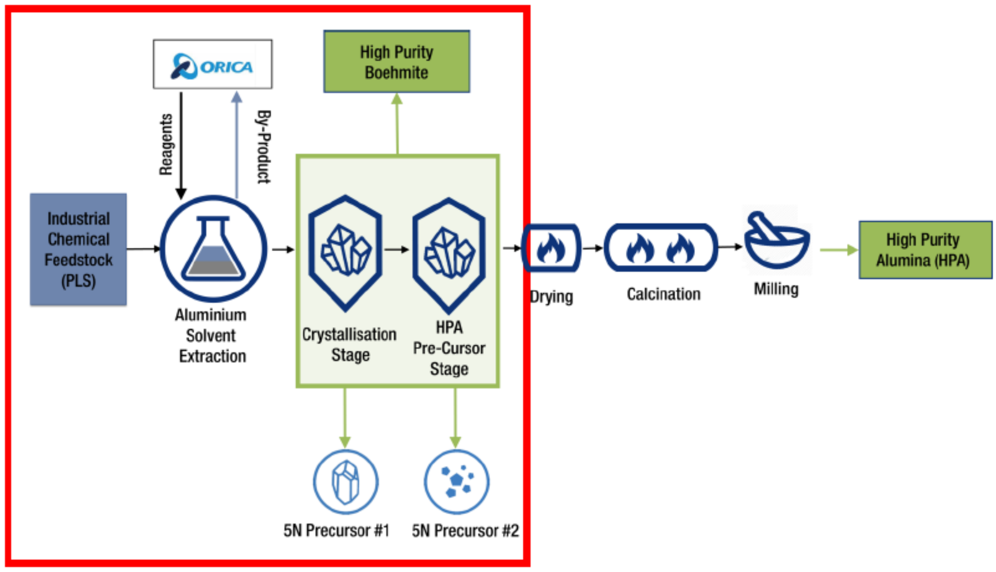
The design capacity of the PPF is around 200tpa of Precursor #1 or Precursor #2 and small volumes of high purity aluminate and boehmite (1-5tpa). Initial product pricing expectations are that Precursor #1 will fetch US$50-65/kg and Precursor #2 US$35-45/kg. These pricing expectations support A4N's PPF annual revenue estimates of $11.4-14.8m.

DEDICATED PRECURSOR #2 FACILITY ON INTEGRATION WITH HPA FIRST PLANT

On A4N's development of the full HPA First Project plant, the PPF will be integrated as a dedicated Precursor #2 production facility. At this time, the majority of the project's fixed costs will be transferred to the full scale plant and lead to improved precursor product margins.

PPF flow sheet: Front end component of HPA First process

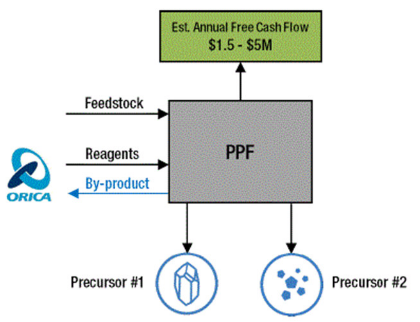
Figure 1 - PPF process flow sheet



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

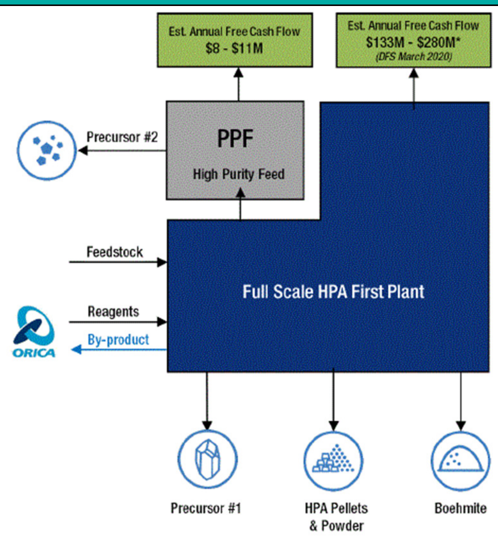
PPF integration: Dedicated Precursor #2 production facility

Figure 2 - Stage 1: Precursor Production Facility



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 3 - Stage 2: PPF integrated with HPA First Project



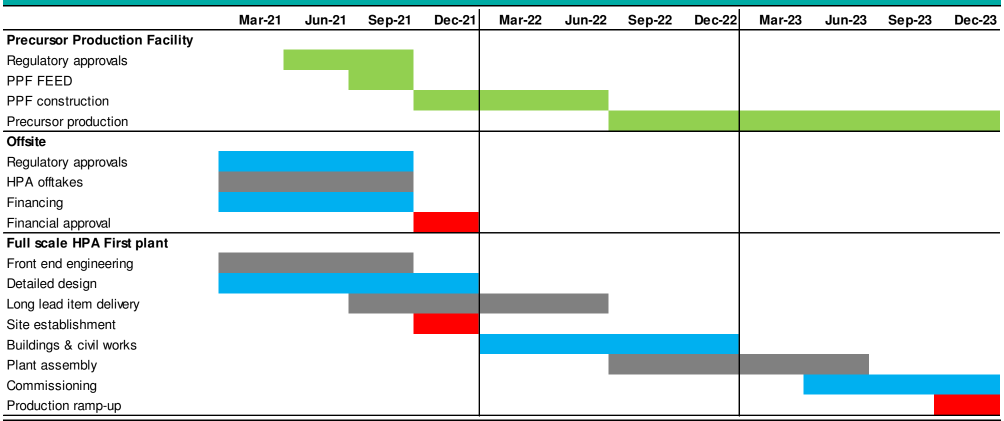
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Project stage & near-term value catalysts

- Imminent: Early stage end-user agreements – Announcements are likely to identify offtake counterparties and product applications;
- Imminent: Definitive ORI agreement – Key to the development of the HPA First Project through the supply of process reagents and offtake of by-products, and further confirming the project's technical competence given ORI's detailed due diligence;
- Ongoing: Regulatory approvals;
- 2H 2021: Commencement of construction of the PPF;

- 2H 2021: Conditional binding offtake agreements with end users;
- 2H 2021: Conditional approval for HPA First Project debt finance;
- Late 2021 / early 2022: HPA First Project development commences.

Figure 4 - Project schedule



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Valuation & methodology

Risked & diluted valuation summary

Our risked and diluted A4N valuation is $0.83/sh and is based on:

- 4N HPA prices of US$25,000/t (consistent with CRU Group's market outlook);
- A4N's March 2020 Definitive Feasibility Study HPA First Project capital and operating costs; and
- A4N's published Precursor Production Facility (June 2021) capital and operating cost estimates.

Risk and dilution to calculated NPV:

- Risk discount of 30% to take into account project stage (DFS completed, pre-development stage); and
- Dilution from an assumed $110m equity raising prior to commencement of full scale construction in mid-2023, conservatively at a discount to A4N's current share price.

Table 1 - Risked & diluted valuation summary

Product price scenario		1	2	3
				Preferred
4N HPA (US$/t)		15,000	20,000	25,000
Al-Precursor #1 (US$/t)		50,000	55,000	65,000
Al-Precursor #2 (US$/t)		35,000	40,000	45,000
HPA First Project				
Unrisked NPV (10% discount rate)		**292**	**685**	**1,082**
Risk discount	30%			
Risked NPV (10% discount rate)		**205**	**479**	**757**
Corporate costs	-40			
Enterprise value		**165**	**439**	**717**
Net debt / (cash)	-54			
Equity valuation (risked, undiluted)		**218**	**493**	**771**
Assumed capital raise $m	110			
Assumed raise price $/sh	0.51			
Current shares on issue m	790			
In the money options m	83			
Assumed capital raising dilution m	218			
Diluted shares on issue m	1,091			
Net debt / (cash) (including options & assumed raising)	-190			
Equity valuation (risked, diluted)		**354**	**629**	**907**
Equity valuation (risked, diluted) $/sh		**0.32**	**0.58**	**0.83**
Current share price	0.51			
Valuation / price		0.6x	1.1x	1.6x

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Our preferred HPA product pricing assumption is at the high end of A4N's published price ranges, which we believe is justified:

- Since the DFS, A4N has identified a number of precursor high purity aluminium and alumina products which have the potential to add further value to the project. These precursor products are produced mid-stream of the project's flow-sheet, are expected to be higher margin and have the potential to provide increased return on capital invested.

- The global decarbonisation theme has accelerated in recent months as developed economies look to address climate change targets in the context of a post-pandemic economic recovery. A4N's HPA First Project products' applications in lithium ion batteries and LED lighting are directly linked to this theme.
- There is potential for A4N's products to have applications in the manufacture of micro-LEDs. Micro LED technology is expected to be the next generation of display technology, superseding OLED and black-lit LCDs.
- Commercialisation of A4N's HPA First Project technology could step beyond the proposed Gladstone project development. With A4N's propriety technology, HPA First Project could be scaled up or replicated elsewhere.

Future capital requirements & funding options

A4N's March 2020 HPA First Project DFS estimated capital costs of $308m, including $27m over-run contingency.

The HPA First Project's location (Queensland) and end products (inputs into key decarbonising technology) make it a candidate for Government backed concessional debt finance. We expect that the Northern Australia Infrastructure Facility and Clean Energy Finance will consider extending debt facilities to support the project. We also expect that commercial banks diversifying away from traditional carbon intensive projects will have an interest in extending debt and working capital finance.

The following table outlines the HPA First Project's capital requirements and the sources of funding which we assume. We factor in a $110m equity raising over the next twelve months to support the project's development ahead of debt draw-down.

Table 2 - Future capital requirements

Capital costs		**A$m**
Processing plant		173
Utilities		19
Infrastructure		39
Indirects		44
Owners costs		7
Total excluding contingency		**281**
Contingency		27
Total		**308**
Funding requirements	**% est.**	**A$m**
Debt finance	65%	200
Equity	35%	108
Total	**100%**	**308**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Alpha HPA Ltd summary

Company description

A4N's HPA First Project is aiming to supply high-purity alumina (HPA) at a purity of greater than 99.99% (or 4N) to the lithium ion battery and light emitting diode (LED) manufacturing sectors. The project's proprietary technology is expected to disrupt incumbent HPA production through significantly lower unit costs. Results of a March 2020 DFS outlined a 10,000tpa 4N HPA project with a capital cost of $308m and pre-tax annual cash flow of $133-280m at 4N HPA prices ranging US$15,000-25,000/t (prices are currently around $24,000/t).

The HPA First Project is a solvent extraction process using an aluminium chemical feedstock purchased on globally traded markets. Orica Ltd (ORI) and A4N are advancing a definitive agreement for ORI's supply of process reagents and for by-product offtake. This agreement has required significant third party due diligence of the HPA First Project process. A 20-year partnership between A4N and ORI is being considered.

For further information on A4N's project and target markets, see our initiation research report dated 21 May 2020.

Investment view: Speculative Buy, Valuation $0.83/sh

A4N's high purity aluminium products have applications in lithium ion battery and micro-LED manufacturing; technologies at the forefront of the global decarbonising theme. Market outreach programs continue to expand A4N's product suite, applications and potential customer base. We believe that it is increasingly likely that the commercialisation of A4N's proprietary process could involve investments beyond its initial Gladstone plant. Catalysts ahead include pending project approvals, offtake agreements and financial approval, all expected in 2H 2021.

A4N is a development company with prospective operations and cash flows only. Our Speculative risk rating recognises this higher level of risk and volatility of returns.

Valuation methodology

We have modelled the HPA First Project using assumptions consistent with the March 2020 DFS. We have employed a blended valuation of:

- EV/EBITDA multiple applied to steady state earnings, discounted to present value, less a capital cost assumption; and
- NPV of a 20 year project (consistent with expected ORI agreement).

Other adjustments to our valuation include:

- A 20% risk discount to account for project stage;
- An allowance for corporate and administration costs;
- The conversion of in-the-money options; and
- A $10m near term capital raise at a 10% discount to the current share price for corporate working capital purposes.

Risks

Risk to an investment in A4N include, but are not limited to:

- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of development and operating assets and companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Technology:** Projects may be reliant on commercialisation of new production processes and methodologies which have yet been proven on a large scale. Technology may be replicated by competitors resulting in a loss of market share.
- **Infrastructure access.** Projects are reliant upon access to transport and pipeline infrastructure. Access to infrastructure is often subject to contractual agreements, permits and capacity allocations. Agreements are typically long-term in nature. Infrastructure can be subject to outages as a result of weather events or the actions of third party providers.
- **Operating and capital cost fluctuations.** Markets for raw material inputs and labour can fluctuate and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to commodity and labour markets. Companies are also exposed to costs associated with future land rehabilitation.
- **Sovereign risks.** Companies' assets are subject to the sovereign risk of the country of location and may also be exposed to the sovereign risks of major offtake customers.
- **Regulatory changes.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuations of companies.
- **Environmental risks.** Companies are exposed to risks associated with environmental degradation as a result of their production processes.
- **Operating and development risks.** Companies' assets are subject to risks associated with their operation and development. Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Occupational health and safety (OH&S) risks.** Companies are exposed to OH&S risks.
- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments.
- **Merger/acquisition risks.** Risks associated with value transferred during merger and acquisition activity.
- **Impact of pandemic infection such as Coronavirus disease (COVID-19).** This may have an adverse impact on the macro economic factors, including the mobility of labour, which can impact asset valuations.

Alpha HPA Ltd
as at 29 June 2021

Recommendation	Buy, Speculative
Price	$0.51
Valuation	$0.83

Table 3 - Financial summary

Date		**29/06/21**	**Bell Potter Securities**
Price	**A$/sh**	**0.510**	Stuart Howe (showe@bellpotter.com.au, +61 3 9235 1856)
Valuation	**A$/sh**	**0.83**	Joseph House (jhouse@bellpotter.com.au, +61 3 9235 1624)

PROFIT AND LOSS

Year ending 30 June	Unit	2020a	2021e	2022e	2023e	2024e
Revenue	$m	0	-	-	13	247
Expenses	$m	(10)	(2)	(3)	(14)	(99)
EBITDA	$m	**(10)**	**(2)**	**(3)**	**(1)**	**148**
Depreciation & amortisation	$m	(0)	-	-	(2)	(18)
EBIT	$m	(10)	(2)	(3)	(3)	130
Net interest expense	$m	0	-	-	(6)	(12)
Profit before tax	$m	(10)	(2)	(3)	(9)	118
Tax expense	$m	-	-	-	-	(25)
NPAT (reported)	$m	**(10)**	**(2)**	**(3)**	**(9)**	**93**
NPAT (adjusted)	$m	**(10)**	**(2)**	**(3)**	**(9)**	**93**

CASH FLOW STATEMENT

Year ending 30 June	Unit	2020a	2021e	2022e	2023e	2024e
OPERATING CASH FLOW						
Receipts from customers	$m	-	0	-	10	200
Payments to suppliers and employe	$m	(2)	(2)	(3)	(13)	(90)
Tax paid	$m	-	-	-	-	(25)
Net interest	$m	0	-	-	(6)	(12)
Other	$m	1	-	-	-	-
Operating cash flow	$m	**(0)**	**(2)**	**(3)**	**(8)**	**73**
INVESTING CASH FLOW						
Capex	$m	(5)	-	(135)	(169)	(41)
Acquisitions	$m	(0)	-	-	-	-
Other	$m	(0)	-	-	-	-
Investing cash flow	$m	**(5)**	**-**	**(135)**	**(169)**	**(41)**
FINANCING CASH FLOW						
Debt proceeds/(repayments)	$m	-	-	-	200	-
Dividends paid	$m	-	-	-	-	-
Proceeds from share issues (net)	$m	13	60	128	-	-
Other	$m	0	-	-	-	-
Financing cash flow	**$m**	13	60	128	200	-
Change in cash	**$m**	**7**	**58**	**(11)**	**22**	**32**
Free cash flow	$m	(6)	(2)	(138)	(178)	32

BALANCE SHEET

Year ending 30 June	Unit	2020a	2021e	2022e	2023e	2024e
ASSETS						
Cash	$m	8	66	55	77	109
Receivables	$m	0	-	-	3	49
Inventories	$m	-	0	0	1	10
Capital assets	$m	3	3	138	306	329
Other assets	$m	0	0	0	0	0
Total assets	**$m**	**11**	**69**	**194**	**387**	**497**
LIABILITIES						
Creditors	$m	1	0	1	3	20
Borrowings	$m	-	-	-	200	200
Provisions	$m	-	-	-	-	-
Other liabilities	$m	-	-	-	-	-
Total liabilities	**$m**	**1**	**0**	**1**	**203**	**220**
NET ASSETS	**$m**					
Share capital	$m	48	108	236	236	236
Reserves	$m	4	4	4	4	4
Accumulated losses	$m	(41)	(43)	(46)	(55)	38
Non-controlling interest	$m	(1)	(1)	(1)	(1)	(1)
SHAREHOLDER EQUITY	**$m**	**10**	**68**	**193**	**185**	**278**
Weighted average shares	m	624	722	918	1,044	1,044

FINANCIAL RATIOS

Year ending 30 June	Unit	2020a	2021e	2022e	2023e	2024e
VALUATION						
EPS	Ac/sh	(2)	(0)	(0)	(1)	9
EPS growth (Acps)	%	na	na	na	na	na
PER	x	-34.0x	-178.8x	-146.4x	-62.6x	5.7x
DPS	Ac/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	Ac/sh	(0.9)	(0.3)	(15.1)	(17.0)	3.0
FCF yield	%	-2%	-1%	-30%	-33%	6%
EV/EBITDA	x	-36.5x	-169.5x	-109.1x	-545.1x	2.4x
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	(8)	(66)	(55)	123	91
Net debt / Equity	%	-76%	-96%	-29%	66%	33%
Net debt / Net debt + Equity	%	-325%	-2466%	-40%	40%	25%
Net debt / EBITDA	x	0.8x	31.9x	17.2x	-191.5x	0.6x
EBITDA /net int expense	x	261.6x	0.0x	0.0x	-0.1x	12.4x
PROFITABILITY RATIOS						
EBITDA margin	%	-3083%	na	na	-5%	60%
EBIT margin	%	-3083%	na	na	-19%	53%
Return on assets	%	-121%	-5%	-2%	-3%	21%
Return on equity	%	-131%	-5%	-2%	-5%	40%

ASSUMPTIONS - Prices (nominal)

Year ending 30 June	Unit	2020a	2021e	2022e	2023e	2024e
4N HPA price	US$/t	25,000	25,000	25,000	25,000	25,000
4N HPA price	A$/t	37,024	33,787	34,014	34,014	33,784
FX	US$/A$	0.68	0.74	0.74	0.74	0.74

ASSUMPTIONS - Sales (equity)

Year ending 30 June	Unit	2020a	2021e	2022e	2023e	2024e
4N HPA sales	t	-	-	-	-	6,877
5N Al-Precursor #1 - Al-Nitrate	t	-	-	-	87	100
5N Al-Precursor #2 - Al-Sulfate	t	-	-	-	87	100

VALUATION

				Preferred
Product price scenario		**1**	**2**	**3**
4N HPA price US$/t		**15,000**	**20,000**	**25,000**
HPA First project $m				
Unrisked NPV (10% discount rate)		292	685	1,082
Risk discount	30%			
Risked NPV		205	479	757
Corporate costs $m	(40)			
Enterprise value $m		165	439	717
Net debt / (cash) $m	(54)			
Equity valuation (risked, undiluted) $m		**218**	**493**	**771**
Assumed capital raise $m	110			
Assumed raise price $/sh	0.51			
Current shares on issue m	790			
In the money options m	83			
Assumed capital raising dilution m	216			
Diluted shares on issue m	**1,089**			
Net debt / (cash) (including options & assumed raising) $m	(190)			
Equity valuation (risked, diluted) $m		354	629	907
Equity valuation (risked, diluted) $/sh		**0.33**	**0.58**	**0.83**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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