

Cyprium Metals Limited

(CYM \$0.31) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Mike Millikan	19 th May 2021	\$0.70/sh ▲ from \$0.45/sh

Nifty Site Visit highlights copper development plans

Investment case

Cyprium Metals Limited ('CYM') has aspirations of building a mid-tier copper mining business. The Company retains strong cash of ~A\$54m (attractive EV of ~A\$160m), well-funded for planned activities of resource infill-extensional drilling, development studies, and some early works at Nifty. A heap leach SX-EW development opportunity at Nifty provides a clear path to early copper production. We recently saw firsthand the extensive infrastructure at site and work programs underway to be "production ready".

We have remodelled to a copper operation capable of production ~20ktpa of premium copper cathode, which assumes favourable study outcomes for potential first copper cathodes late CY22/early CY23. Our Nifty SX-EW copper operations (risked NPV10) uses conservative average recoveries of ~75% (CYM target is ~85%) and AISC of ~US\$1.78/lb Cu over 11 year mine life. We also model an option on the sulphide ores to mined via the open pit operation (risked NPV12) for later-date ~22ktpa payable copper-in-concentrate production at AISC of US\$1.99/lb Cu. Our preliminary valuation and price target improves from \$0.45/sh to \$0.70/sh, which now uses our copper price deck for average copper prices of ~US\$3.55/lb and FX rate of AUD:US\$ of ~0.743. At current spot copper prices of ~US\$4.65/lb and FX our valuation increases to ~\$1.22/sh, highlighting significant upside value. Speculative Buy retained.

Key points

- We visited the Nifty Copper Mine, located on the western edge of the Great Sandy Desert in the Pilbara region of WA. Port Hedland is located ~350km to the north-west.
- CYM completed the "company making" Paterson Copper Portfolio (Nifty, Maroochydore and Paterson Exploration Tenure) acquisition from MetalsX (MLX) in late March'21.
 - CYM now has 100% interest in the assets which are considered transformational in regards to accelerating copper development plans.
 - CYM paid A\$60m, split A\$24m cash and A\$36m convertible notes to MLX.
 - Four con notes with value of \$9m each for A\$36m, 4% annual coupon, conversion price of A\$0.3551/sh.
 - Free attaching options (total 40.6m); 20.3m @ A\$0.3141/op, 20.3m @ A\$0.3551/op.
- Nifty is one of the key assets being acquired, and contains significant copper resources, extensive mine and site infrastructure, along with large exploration ground located in the highly prospective Paterson Province.

Cyprium Metals Limited	Year End 30 June	
Share Price	\$0.310	A\$/sh
Issued Capital		
Fully Paid Ord	548.6	m
Opt @ 30cps	6.0	m
Performance Rights	22.0	m
Total Dil. - proforma	576.6	m
Market Cap. (Dil)	\$179	m
Enterprise Value	\$161	m
Debt - con notes	\$36	m
Cash - 31Mar21a	\$54	m
Year Low-High	\$0.09-\$0.335	
Avg Daily Vol	0.68m/day	

Directors

G.Comb	Non Exec Chairman
B.Cahill	Exec Director
N.Rowley	Non Exec Director
W.Apted	CFO & Comp Sec

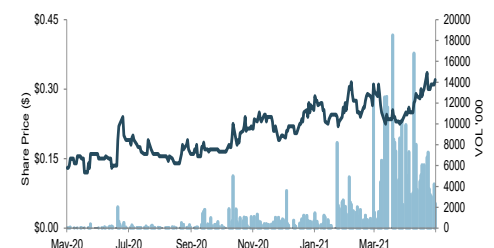
Major Shareholders

na		
Board	8.7	m

Company Details

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Share Price Chart



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- CYM's initial focus will be developing a near-term heap leach and oxide production strategy at Nifty. Open pit mining of sulphides could also provide copper-in-concentrate production or additional heap leach opportunities, increasing production levels and extending mine life.
- Reverse Circulation (RC) sterilisation drilling is well underway to the west of the existing heap leach pads, with resource infill adjacent to the open pit to follow.
 - One rig is on site currently, but the number of rigs is expected to increase to 2-3 in a few weeks.
 - The current sterilisation program will clear the way for the new heap leach pads, with the initial plan to move and re-stack some -7-8Mt of the -17Mt heap leach re-treat material and re-agglomerate for better recoveries.
 - The open pit resource infill will include some extensional drilling to add confidence to the early mine plan which will require some remedial works for enable the pit cut-back.
 - On the current schedule, subject to Feasibility Study (FS) outcomes, open pit mining could commence in early CY22, timing well for the construction of the oxide and transitional heap leach pads, which will complement the existing retreat pads.
- Trenching and sampling of the existing heap leach pads for additional metallurgical-test work has been completed with samples in the laboratory pending results.
 - Results from the met-testwork are likely to be available in June/July'21.
 - Laboratory recoveries were historically +90%, and in-field trial were over 73% but CYM understands where the problems were and expects recoveries of +80-85% can be achieved (= target)
 - Three types of pads are proposed = Retreatment pad (old heap leach pad), Oxide ore pad (open pit feed), and Transitional ore pad (open pit feed).
- The engineering (cost) report for the SX-EW plant on potential refurbishment verses a new plant is nearing completion.
 - There could be some clear benefits in moving to a new SX-EW plant, maintaining the targeted copper cathode production levels +20ktpa while moving to 30% more efficient operation for additional opex savings.
 - The old Nifty SX-EW plant is 1st generation technology with the latest plants 4th generation, highlighting significantly improved technology advancements.
 - Pre-production capital requirements for the restart of copper production will be provided in the FS currently scheduled for release in Sep'21. The FS will also provide operating costs and expected production plans.
 - A new plant once ordered should take <12 months, which is considered a similar timeframe if refurbishment is considered a more appropriate course of action, both timing for potential first copper production late 2HCY22 for full production levels in CY23.
- News-flow is expected to be strong, early work streams to establish improved communications (upgrade from 3G to 4G communications), and have a "man-ready" camp; along with the commencement of development study activities (drilling, sampling, met-testwork, evaluation of infrastructure, just to name a few).

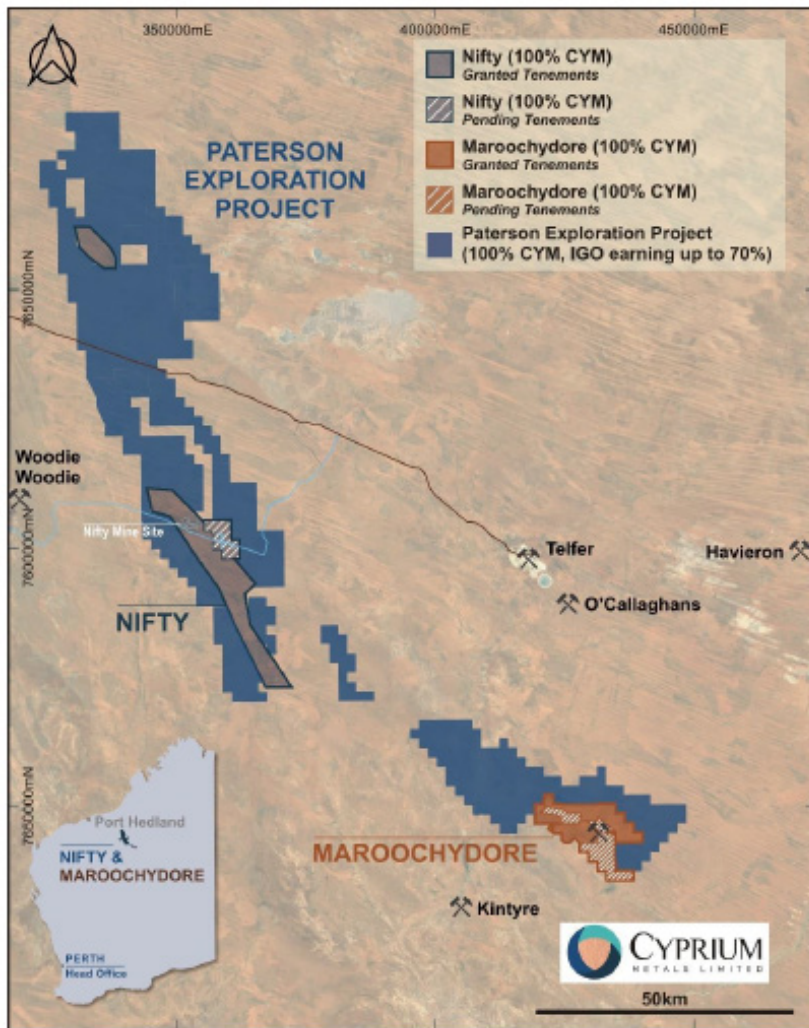
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- Copper prices are at decade highs, having recently pushed through US\$10,000/t, and prices stabilising above that level. The medium to longer term outlook for copper remains strong, with the “green energy” thematic further contributing the tightening supply and increased demand; which bodes well for CYM production plans.

Fig 1. Location of the Paterson Copper Portfolio



Source: Cyprium Metals Ltd

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Nifty Site Visit

- Nifty contains extensive infrastructure including a 2.8Mtpa copper concentrator (in care and maintenance), 20-25ktpa solvent extraction-electrowinning (SX-EW) plant, power station (gas-fired 21MW), accommodation village (~400 person), all-weather sealed airstrip and associated site offices and workshops.

Fig 2. Nifty Site Layout



Source: Cyprium Metals Ltd

Fig 3. Nifty – Heap Leach Trenching (LHS) and Old Pad (RHS)



Source: Euroz Hartleys Research

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- Nifty was discovered by WMC in 1981, and commenced initial open pit oxide heap leach SX-EW operations in 1993. The SX-EW plant produces copper cathode, the purest form of copper and the feedstock used to produce a wide range of copper products (ie copper wiring, tubing, sheeting, alloys etc).
- It also has the advantage of high (100%) payable terms or premium for LME registered brands and attracts lower state royalties of 2.5% versus 5% royalty on copper concentrate production. Heap leaching is one of the oldest mining processes to extract valuable metals (ie copper), and in basic terms a hydrometallurgical process in which a solution (lixiviant) is applied for the dissolution of the mineral from the ore. The leached metal (copper) in solution is then processed by solvent extraction-electrowinning (SX-EW) to produce LME Grade A copper cathode (purity of more than 99.99% Cu).

Fig 4. Nifty – Solvent Extraction SX (LHS) and Electrowinning EW (RHS)



Source: Euroz Hartleys Research

- The historic open pit at Nifty is situated around the northern limb of the Nifty Syncline and previously mined oxide, transitional and some of the supergene mineralisation.

Fig 5. Nifty – Open Pit Look out Views



Source: Euroz Hartleys Research

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- The sulphide concentrator at Nifty is currently on care and maintenance and has throughput capacity of 2.8Mtpa. First copper concentrates were produced at Nifty in March 2006 and ceased production in November 2019.

Fig 6. Nifty – 2.8Mtpa Copper Concentrator



Source: Euroz Hartleys Research

Valuation and Price Target

Fig 7. Preliminary “Sum of Parts” Valuation for CYM

ASSET VALUATION	A\$m	A\$/sh
Nifty Heap Leach SX/EW - 11yrs- NPV10 risked 80%	219	0.38
Nifty Open Pit - Sulphide 9yrs - NPV12 risked 70%	156	0.27
Other Copper Projects + Exploration	30	0.05
Corp OH	(20)	(0.03)
Cash	54	0.09
Unpaid Capital (ITM)	2	0.00
Debt (con note)	(36)	(0.06)
Total	405	0.70

Source: Euroz Hartleys

- We have updated our preliminary valuation (sum of parts) on CYM which is now \$0.70/sh up from \$0.45/sh. Nifty continues to be seen as the largest value driver (assigned value \$0.65/sh), at least in the near-term and we model (risked NPVs) a ~11year Heap Leach SX-EW operation and a ~9-year open pit copper-in-concentrate production, based largely on inputs (and expanded) from the MLX Nifty Scoping Study (June'20). The table below summarises our latest modelling inputs, which we stress remains preliminary and subject to change.
- We have assigned a nominal \$30m for the other copper assets, which should also be considered conservative, especially with resource updates and Scoping Studies coming due from the Murchison Copper Project, along with the extensive copper resource at Maroochydore Copper Project.

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- Our modelling now uses our (Euroz Hartleys) copper price deck for average copper prices of ~US\$3.55/lb and FX rate of AUD:US\$ of ~0.743. At current spot copper prices of ~US\$4.65/lb and FX our valuation increases to ~\$1.22/sh, highlighting significant upside value. We will update our valuation as CYM advances its development plans.

Fig 8. Model Assumptions for Valuation

Nifty Copper Mine - LOM	Units	Open Pit - Sulphide	Heap Leach SX/EW
Mine Life	Yrs	9	11
Strip Ratio	W:O	7.6:1	
Mining Inventory	Mt	21	36
Grade	% Cu	1.23	0.81
Contained Cu	kt Cu	283	285
Pre-prod Capex	A\$m	45	100
Mill feed material	Mt	21.1	35.5
Grade	% Cu	1.23	0.81
Contained Cu	kt Cu	258.9	285
Recoveries	%	85%	75%
Recovered Cu	kt Cu	220	217
Payable Cu	kt Cu	198	217
Copper Price (ave)	US\$/lb Cu	3.55	
Copper Price (ave)	A\$/lb Cu	4.78	
Revenue	A\$m	2065	2269
Mining/handling	A\$m	493	673
Heap Leach	A\$m	-	250
SX	A\$m	-	62
EW	A\$m	-	72
Reagent/other	A\$m	-	5
Processing	A\$m	421	-
G&A	A\$m	117	-
C1 cost	A\$m	1031	1062
Sales & marketing	A\$m	105	11
Royalties	A\$m	115	56
Cash operating cost	A\$m	1251	1129
Sustaining capital	A\$m	53	18
All-in sustaining cost (AISC)	A\$m	1304	1147
AISC	A\$/lb Cu	2.69	2.40
AISC	US\$/lb Cu	1.99	1.78
Operating cashflows (EBITDA)	A\$m	716	1022
Post tax earnings (est)	A\$m	509	691
Discount Rate	%	12%	10%
NPV pre-tax	A\$m	\$312	\$422
NPV post-tax	A\$m	\$223	\$274
Risked	%	70%	80%
NPV post-tax risk adj	A\$m	\$156	\$219

Source: Euroz Hartleys, based largely on MLX "Nifty Scoping Study" June'20

- Our modelling sees potential for ~19.7ktpa copper cathode production at AISC of US\$1.78/lb Cu and ~22ktpa payable copper-in-concentrate production at AISC of US\$1.99/lb Cu. We see significant upside in improving heap leach recoveries and potentially increasing the SX-EW capacity in the longer term. Cyprium is proposing to have longer leach times which will lift heap recoveries, we at this stage use a blended recovery of 75% (below the CYM target for +80-85%).

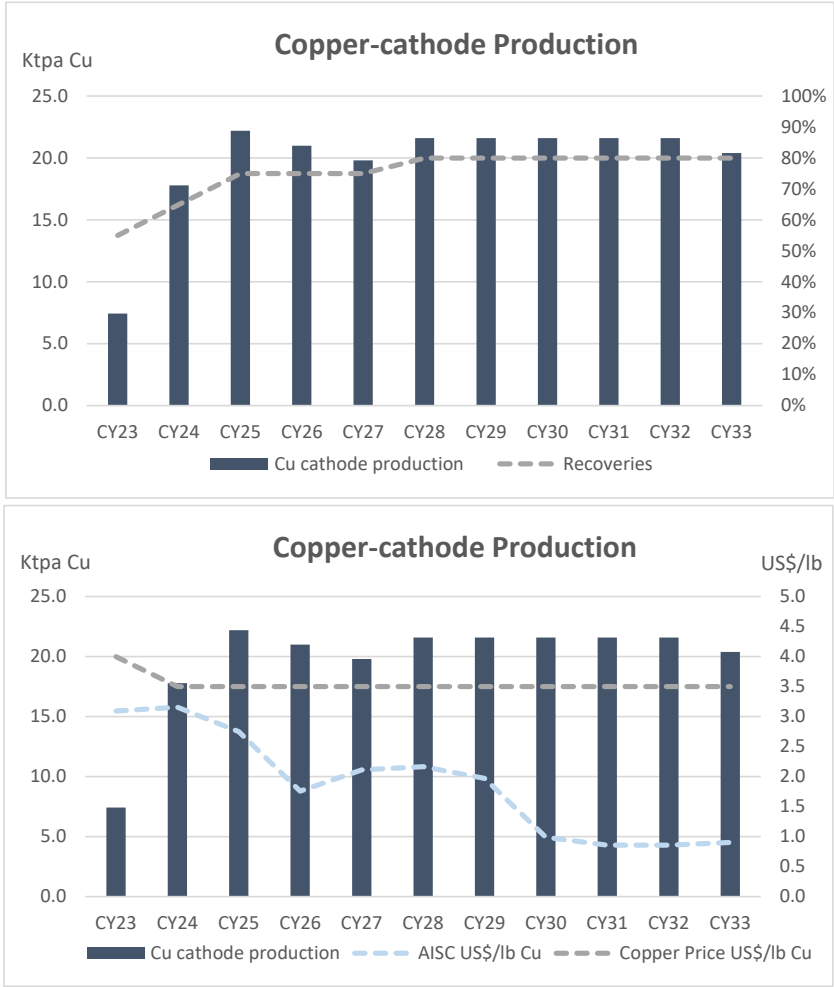
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Fig 9. Copper Cathode Production (est)



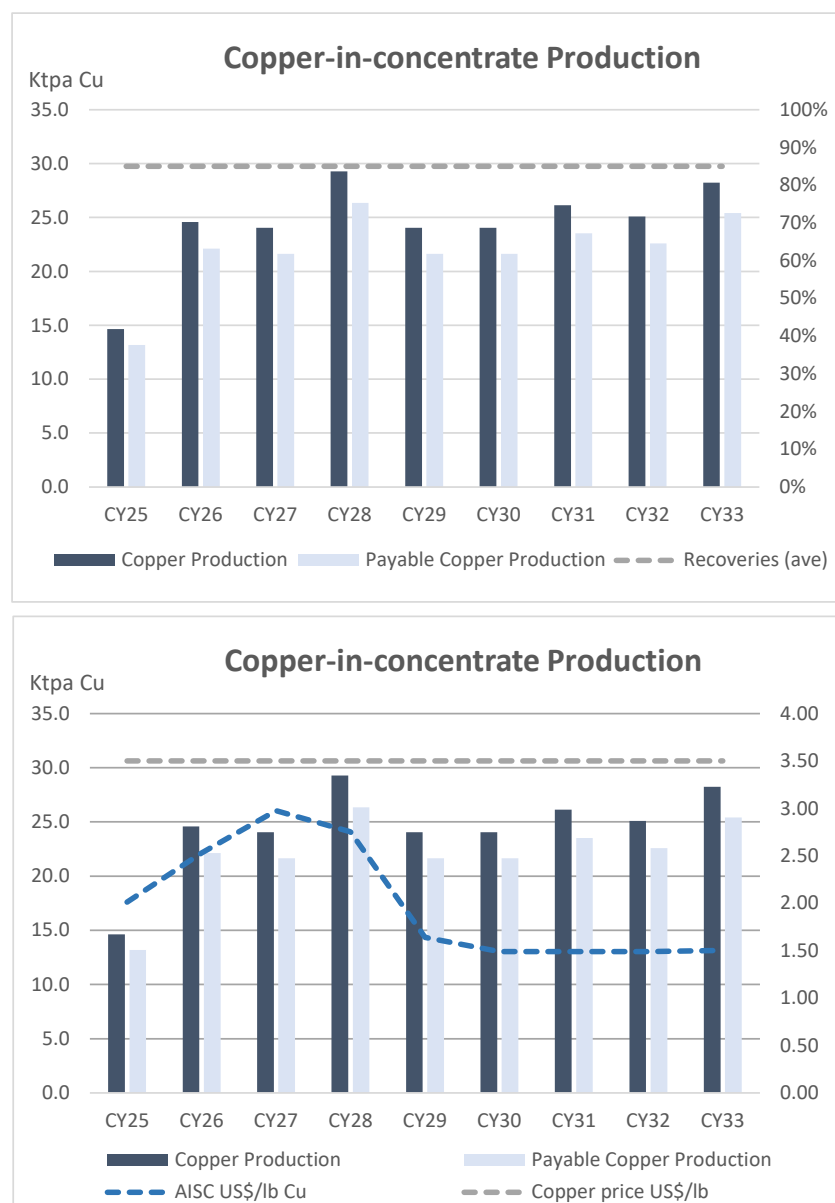
Source: Euroz Hartleys

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Fig 10. Copper-in-concentrate Production (est)



Source: Euroz Hartleys, after MLX "Nifty Scoping Study" June'20

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Opportunities and Risks

Some of the key opportunities include:

- Resource growth and add mine life: previous study work by MLX, identified “3 areas of potential” to increase copper mineralisation, and add to the mining inventory.
 - Northwest Target: considered a low grade zone (0.2-0.6% Cu) within the current resource model. Poorly drilled and upside exists in higher grade zones to improving grade.
 - Westend Target: poorly drilled zone within the Inferred resource (~3.9Mt @ 0.7% Cu), well located up-plunge and as such nearer to surface. Infill drilling to upgrade resource confidence could add additional mill feed early in the open pit mine life.
 - Southeast Supergene Target: poorly drilled oxide copper mineralisation located at the SE parts of the historic open pit. Current Inferred resource of 877kt @ 0.96% Cu remains open to the south and southeast – further drilling required.
- Pit optimisation to increase production targets: MLX did not complete pit optimisation in its scoping level studies. Resources used in the production targets were largely Measured and Indicated, hence should bode well for reserve conversion.
- Early production can leverage existing site infrastructure: Nifty is fully permitted for open pit mining and has all the required site infrastructure for a quick restart (site has been on care and maintenance since Nov’19). Permitting is required for the restart of the old/or new SX-EW plant.
- Well understood metallurgy which can be enhanced: mining commenced in 1993 with a heap leach operation and last produced copper concentrates in late 2019. Metallurgical recoveries are well understood, but further work is recommended and can potentially be enhanced through new leaching technologies and potential application of ore sorting.
- Fill and increase capacity of SX-EW plant: increasing/filling the capacity of the SX-EW plant would increase copper cathode production. This is the expected plan of CYM.
- Low costs provides copper price leverage: the near-term heap leach and oxide production strategy is expected to have relatively low upfront capital costs and attractive low AISC (<US\$2/lb Cu), hence is highly leveraged to the copper price.

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Some of the key risks include:

- Pit cutbacks: the proposed open pit requires cutbacks of the historical pit walls, some of which are unstable in parts. Additional geotechnical study work including drilling will be required. Pit wall stability is a key risk for all open pit operations. MLX strip ratio for the LOM of the open pit was <8:1, which could increase through further studies to ensure future pit stability.
- Existing heap leach tonnes are difficult to estimate: The ore (partially leached) on the existing leach pads is estimated to be ~17Mt (more or less) and estimated the grade to be ~0.44-0.5% Cu. Grade estimation for leach pad is problematic as the copper concentrates near the bottom of the pad near the liner. Drilling for resource estimation avoids getting too close to this liner for obvious reasons. A better estimation can be made once re-mining and re-stacking commences. Changes in grade could have downside/upside risk.
- Recoveries and leach times may vary over time: we have used recoveries in the heap leach starting at 55% increasing over a number of years to ~80% on largely open pit feed (average ~75%). In regards to the copper-in-concentrate production we have used average recoveries of 85% (below historical levels of ~90%, for conservatism). Variations in recoveries could have downside/upside risks to our valuation. Further testwork is planned to be completed.
- Additional permitting required: the SX-EW plant requires additional permitting. While unlikely that permits will not be granted it is still a risk.
- Copper price and exchange rate movements: while the initial operation is expected to be low costs, as mentioned, copper price movements (down) are a key risk to the project.
- Project funding: additional funding for the project development will likely be required. Once development studies are completed, conventional debt options could become available. In addition, equity markets currently remain open to feasible copper project developments (which remain few and far between).

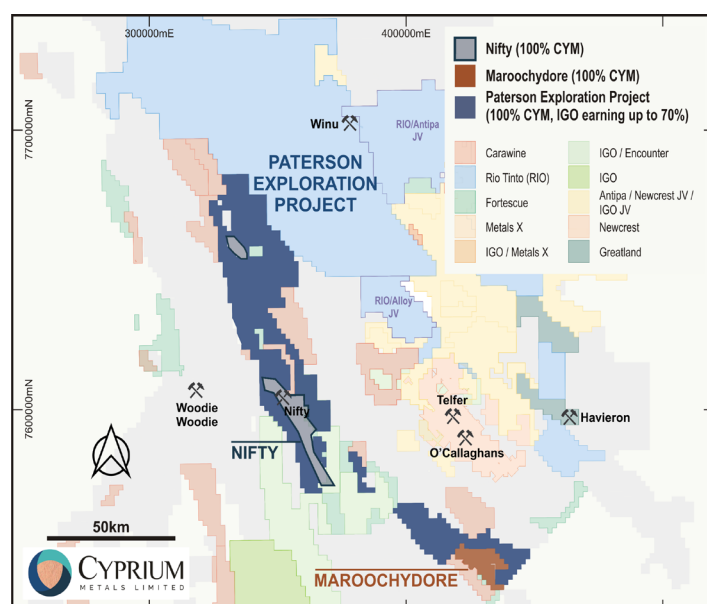
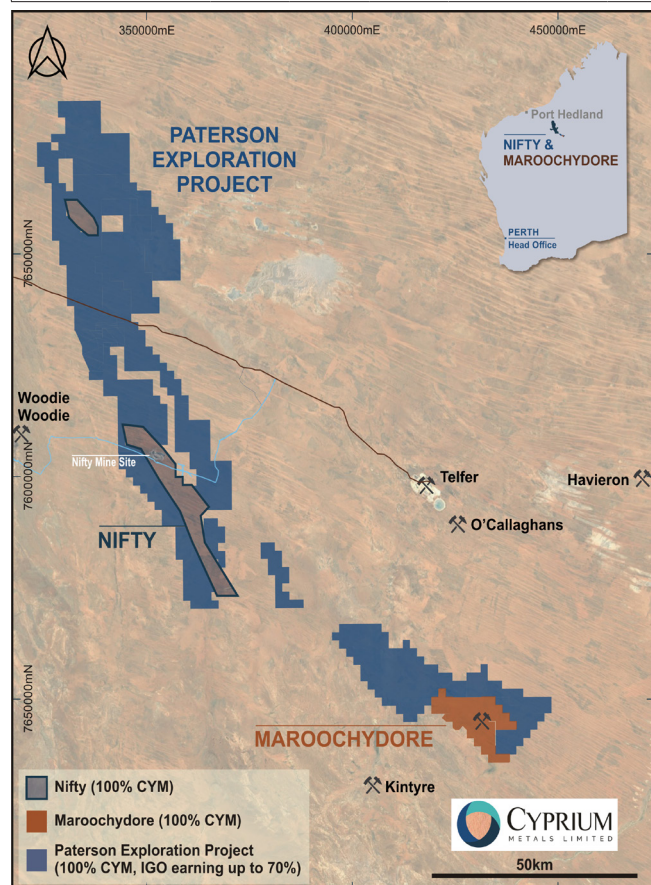
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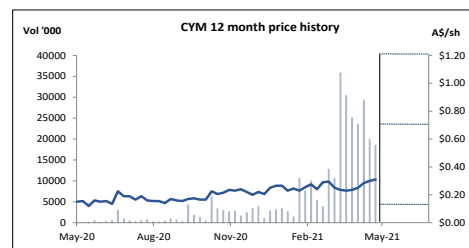
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Key Variables

Euroz Forecast	FY'20	FY'21	FY'22	FY'23	FY'24	FY'25
Copper \$	\$2.57	\$3.70	\$4.00	\$3.50	\$3.50	\$3.50
AUDUSD	\$0.67	\$0.75	\$0.75	\$0.74	\$0.74	\$0.74



Our Share Price Sensitivity



Our Market Sensitivity

Valuation - \$0.70/sh

Price Target - \$0.70/sh

Bull Scenario - \$1.20/sh

Nifty is upgraded for higher copper cathode production, and mine life is extended. Other CYM assets, such as Maroochydore are incrementally added as new heap leach operations for increased production levels. Copper prices increase beyond our long term assumption.

Base Scenario - \$0.70/sh

We assume CYM progresses development studies with a favourable outcome to commence initial copper production at Nifty. We assume heap-leach SX-EW for copper cathode for ~11 years and potential copper in concentrate production for ~9 years.

Bear Scenario - \$0.15/sh

The Paterson Copper Portfolio underpins some value, and market assigns little value to the other assets. Copper price falls and Nifty ceases to generate any free cash.

Company Summary

Cyprium Metals Ltd (CYM) is an Australian-focused copper developer and explorer. The Company acquired a portfolio of copper assets which are transformational in regards to accelerating development plans. Nifty is one of the key assets acquired, and contains significant copper resources, extensive mine and site infrastructure, along with exploration upside. Cyprium has aspirations of building a mid-tier copper mining business, leveraging its' development and production expertise to its growing copper portfolio. A low-cost, heap leach copper development opportunity at Nifty provides a clear path to early production. The Company is well funded to execute its strategy.

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