EDISON

The Metals Company

FY22 results

All set for a pivotal year

Metals and mining

The global electric vehicle transition requires significant volumes of battery materials (see Edison's note on critical minerals) and The Metals Company's (TMC's) deep-sea concession is a proven resource. The key to transforming this resource into a commodity or commercial production is an exploitation licence, which requires the International Seabed Authority (ISA), the governing body, to put in place the required legislation. The meeting to enact this regulation is scheduled for July 2023.

Year end	Revenue ($m)	PBT* ($m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/21	0	(108)	(52.7)	0.0	N/A	N/A
12/22	0	(154)	(64.1)	0.0	N/A	N/A
12/23e	0	(50)	(14.9)	0.0	N/A	N/A
12/24e	71.7	(59)	(12.1)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

FY22 results: Losses reflect increased investment

TMC reported a loss before tax of $171m in FY22, up from $141m ($154m from $108m underlying, excluding exceptional items and share-based payments). This reflects increased one-offs, most notably $69.9m for partner Allseas' stock vesting as relevant milestones were achieved, and higher levels of operational activity. 2022 included extensive sea trials as TMC develops its nodule collection system and builds its resource library, particularly environmental, ahead of its application for an exploitation licence. FY22 year-end net cash was $46.8m, down from $84.9m.

FY23: Prospects, liquidity and forecasts

The key event in 2023 is the ISA meeting in July when regulations regarding the award of commercial exploitation licences in the deep sea are due to be enacted. In the meantime, TMC continues to work on the required documentation to support an application for such a licence later in the year. Since the year end the company has raised an additional $30m and has a further untapped equity facility. This will support liquidity, assisted by the lack of major operating expenses such as further sea trials or capital spend in the year. We also note management comments that it believes it has sufficient liquidity for at least the next 12 months. We have raised our FY23e operational costs for the year, resulting in an increased loss, before share-based charges, from $40m to $50m, and forecast year-end net cash of $26.8m.

Valuation: Waiting for the catalyst

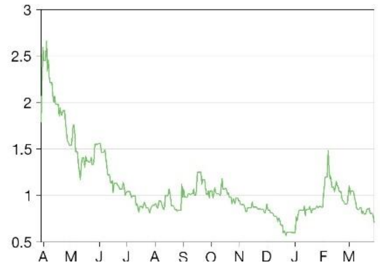
Our valuation, based on risked stages of the NORI-D project, remains unchanged from our initiation note. Key is the de-risking of the project, primarily the award of an exploitation licence. Our valuation using long-term metal prices (below current prices) at the current stage of development is $244–484m, which rises to $552–1,182 (at long-term metal prices) on the award of an exploitation licence. The ISA's anticipated adoption of mining regulations in July 2023 provides a critical stepping stone on this path.

29 March 2023

Price	**US$0.9**
Market cap	**US$226m**

Net cash ($m) at 31 December 2022	46.8
Shares in issue	265.5m
Free float	49.2%
Code	TMC
Primary exchange	Nasdaq
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(30.6)	18.0	(57.9)
Rel (local)	(30.6)	12.4	(51.4)
52-week high/low		US$2.7	US$0.6

Business description

The Metals Company is a deep-sea minerals exploration company focused on the collection, processing and refining of polymetallic nodules, containing nickel, copper and cobalt, found on the seafloor in the international waters of the Clarion Clipperton Zone, 1,300 nautical miles off the coast of Southern California.

Next events

Q223 results	Date to be confirmed

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Edison profile page

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FY22 results overview

Profit and loss

The company reported a loss before tax of $171m in FY22 versus a loss of $141m in FY21. The increased loss was primarily due to the higher levels of offshore activity, in particular the Q4 in-situ pilot tests with associated monitoring vessel. The loss included $69.9m in vesting stock and the third payment of $8.7m in respect of the successful sea trials of the Hidden Gem and the nodule recovery system. There was a $17.1m charge for share-based payments. The reported loss per share for the year was 71c up from 69c in FY21.

Cash flow and balance sheet

Operating activities consumed c $67m of cash while the PIPE financing raised c $30m, leading to a net reduction in cash of c $38m. Net assets declined from $92.8m to $41.5m, largely due to the reduction in cash and an increase in payables. Year-end net cash was $46.8m, down from $84.9m in FY21.

Liquidity

Post the year end, the company raised a $25m unsecured credit facility with the parent of Allseas Investments and received $5m from Low Carbon Royalties, along with the initial 35% equity stake. In addition, the company has a $30m approved at-the-market equity programme, which remains untapped (and arguably unattractive at the current market price).

Management commented that, ‘we believe that existing liquidity will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months from today’. It supported this by noting that, if necessary, it could reduce costs to c $5m a quarter, primarily to fund central costs and assisted by there being no major sea trials/campaigns planned.

Key events in 2022

The most significant event in 2022 was the Q4 sea trials in-situ in NORI-D. These provided positive tests for the nodule collector equipment and riser system. In total, 4,500 tonnes of nodules were collected with 3,000 tonnes raised 4.3km from the seabed to the surface production vessel. While this validated the system, further upgrades are required to meet the planned collection rates. The ‘virtual twin’ monitoring system was also tested successfully.

Q123 corporate update

TMC completed two financing transactions in Q123, as summarised above. Management also continues to develop its plans to bring in best-of-class third parties to provide the required expertise and build on its ‘asset light’ plan. These included the following in Q123:

- Nodule processing non-binding memorandum of understanding (MoU) signed with Pacific Metals Co (PAMCO) of Japan. PAMCO is a nickel-focused business, the key smelting business producing ferronickel used in the manufacture of stainless steel, while the ferronickel slag business treats and recycles the slag produced in the steel-making process. PAMCO will use its expertise and existing processing capacity to evaluate the feasibility of processing 1.3Mt of wet polymetallic nodules per year from 2025 onwards, in line with TMC’s expectations for Project Zero. The expectation is that this will lead to a volume processing agreement in due course. This does not replace the discussions with Epsilon Carbon announced last year but, in our view, provides a more experienced partner with the required processing capacity in place and hence is likely to provide greater certainty for processing the initial nodule production.

- Bechtel, a multibillion-dollar global expert in infrastructure project development and execution, has been engaged to support the commercial contract application for the NORI–D project. Bechtel will bring together a number of earlier studies undertaken by different organisations, along with its own extensive experience in the mining sector, to assist TMC to produce a first-of-its kind exploitation contract application to the ISA. This is expected to be completed in the current calendar year.

2023 outlook

The key event in the year is the expectation that the ISA will implement regulations covering mining in the deep sea at its meeting in July. This would then allow TMC's application for a commercial nodule collection licence in NORI-D to proceed. Inevitably there is uncertainty over this event, although we note the following recent developments:

- A UN intergovernmental conference on marine diversity approved a new maritime biodiversity treaty covering areas beyond national jurisdiction. The treaty calls for the protection of 30% of the region. We note that the ISA remains mandated to regulate the deep sea, including the Clarion Clipperton Zone (CCZ), where TMC's NORI-D is situated and where 43% of the region is already protected.
- National governments are becoming more interested in the CCZ and deep-sea mining as a source of battery materials (see Edison's note on critical minerals). In particular, France, which had been one of the more vociferous nations calling for a moratorium, appears to have softened its stance, while the French Research Institute for the Exploitation of the Sea extended its CCZ exploration contract, a pre-requirement for future development. It has also been reported that China has recommenced its interest in the region.

From an operational perspective, TMC has no major offshore activity planned for the year, but it continues to develop its onshore capabilities. The main focus for 2023 is on assembling the required information and plans to apply for an exploitation licence. These include an Environmental Impact Statement and an Environmental Mitigation and Monitoring Plan.

Financials

2023 should see reduced losses due to the absence of significant one-offs such as the $69.9m vesting charge, while from an operational perspective there are no major, and expensive, sea trials planned. As outlined above, the majority of the work this year will be developing the required plans and gathering supporting evidence for the exploitation licence application, which, subject to the ISA's progress on the requisite legislation, will be submitted later in the year. We have assumed costs of $50m before share-based payments. Note that our forecasts have been changed to assume only the $30m fund-raising already announced in 2023, down from previous expectations, hence the lower net cash at the year end. However, we now assume a $150m fund-raise in 2024, primarily for Project Zero, albeit we note that TMC does not currently have shareholder approval for such a sizeable raise, nor is it likely to be management's preferred route given the dilutive effect for existing shareholders.

Key sensitivities therefore are on the timing of the licensing application in 2023 and the commencement of nodule collection, which will affect 2024 numbers (currently expected to commence in Q424).

Exhibit 1 highlights the changes to our forecasts. We also introduce 2025 numbers (see Exhibit 2), which will include the first full year of production from Project Zero, albeit still in a ramp-up phase and therefore not at the long-term anticipated rates.

Exhibit 1: Forecast changes

		2023e			2024e		
		Old	New	Change	Old	New	Change
Revenues	$m	0.0	0.0	N/A	71.9	71.7	-0.3%
EBITDA	$m	(36.7)	(50.0)	36.2%	(46.1)	(59.4)	28.8%
Normalised operating profit	$m	(40.0)	(50.0)	25.0%	(49.2)	(59.4)	20.7%
Normalised PBT	$m	(40.0)	(50.0)	25.0%	(49.2)	(59.4)	20.7%
Normalised basic EPS	c	(9.1)	(14.9)	63.3%	(11.2)	(12.1)	7.6%
Net debt/(cash)	$m	(95.2)	(26.8)	-71.8%	(26.1)	(44.6)	70.7%

Source: Edison Investment Research

Exhibit 2: Financial summary

$m	2021	2022	2023e	2024e	2025e
Year to 31 December	US GAAP	US GAAP	US GAAP	US GAAP	US GAAP
INCOME STATEMENT					
Revenue	0.0	0.0	0.0	71.7	358.4
Cost of Sales	0.0	0.0	0.0	(78.5)	(341.3)
Gross Profit	0.0	0.0	0.0	(6.9)	17.0
EBITDA	(115.7)	(157.0)	(50.0)	(59.4)	(32.4)
Operating profit (before amort. and excepts.)	(116.2)	(157.0)	(50.0)	(59.4)	(35.5)
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0	0.0
Exceptionals & share based payments	(33.4)	(17.1)	(10.0)	(10.0)	(20.0)
Reported operating profit	(149.6)	(174.1)	(60.0)	(69.4)	(55.5)
Net Interest	8.3	3.2	0.0	0.0	0.0
Joint ventures & associates (post tax)	0.0	0.0	0.0	0.0	0.0
Exceptionals					
Profit Before Tax (norm)	(107.9)	(153.8)	(50.0)	(59.4)	(35.5)
Profit Before Tax (reported)	(141.3)	(170.9)	(60.0)	(69.4)	(55.5)
Reported tax	0.0	0.0	10.0	11.9	7.1
Profit After Tax (norm)	(107.9)	(153.8)	(40.0)	(47.5)	(28.4)
Profit After Tax (reported)	(141.3)	(170.9)	(50.0)	(57.5)	(48.4)
Minority interests	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net income (normalised)	(107.9)	(153.8)	(40.0)	(47.5)	(28.4)
Net income (reported)	(141.3)	(170.9)	(50.0)	(57.5)	(48.4)
Average Number of Shares Outstanding (m)	205	240	269	394	394
EPS - normalised (c)	(52.66)	(64.09)	(14.86)	(12.05)	(7.21)
EPS - normalised fully diluted (c)	(46.93)	(58.04)	(13.60)	(11.33)	(6.78)
EPS - basic reported (c)	(68.96)	(71.22)	(18.58)	(14.59)	(12.28)
Dividend (c)	0.00	0.00	0.00	0.00	0.00
BALANCE SHEET					
Fixed Assets	44.6	45.2	50.2	105.2	107.1
Intangible Assets	43.2	43.2	43.2	43.2	43.2
Tangible Assets	1.4	2.0	7.0	62.0	63.9
Investments & other	0.0	0.0	0.0	0.0	0.0
Current Assets	88.6	49.7	29.7	76.5	110.8
Stocks	0.0	0.0	0.0	17.9	89.6
Debtors	0.0	0.0	0.0	11.2	18.3
Cash & cash equivalents	84.9	46.8	26.8	44.6	0.0
Other	3.7	2.9	2.9	2.9	2.9
Current Liabilities	(26.6)	(41.7)	(41.7)	(41.7)	(41.7)
Creditors	(26.6)	(41.7)	(41.7)	(41.7)	(41.7)
Tax and social security	0.0	0.0	0.0	0.0	0.0
Short term borrowings	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Long Term Liabilities	(13.8)	(11.7)	(1.7)	(1.0)	(65.5)
Long term borrowings	0.0	0.0	0.0	0.0	(64.5)
Other long term liabilities	(13.8)	(11.7)	(1.7)	(1.0)	(1.0)
Net Assets	92.8	41.5	36.5	139.0	110.6
Minority interests	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	92.8	41.5	36.5	139.0	110.6
CASH FLOW					
Operating Cash Flow	(115.7)	(157.0)	(50.0)	(59.4)	(32.4)
Working capital	18.5	17.8	0.0	(17.9)	(71.7)
Exceptional & other	41.3	72.7	0.0	0.0	0.0
Tax	0.0	0.0	0.0	0.0	0.0
Net operating cash flow	(55.9)	(66.5)	(50.0)	(77.3)	(104.1)
Capex	(0.4)	(1.2)	(5.0)	(55.0)	(5.0)
Acquisitions/disposals	(3.4)	0.0	0.0	0.0	0.0
Net interest	0.0	0.0	0.0	0.0	0.0
Equity financing	134.7	29.7	35.0	150.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Other					
Net Cash Flow	75.0	(38.0)	(20.0)	17.7	(109.1)
Opening net debt/(cash)	(10.1)	(84.9)	(46.8)	(26.8)	(44.6)
FX	0.0	0.0	0.0	0.0	0.0
Other non-cash movements	(0.2)	0.0	0.0	0.0	0.0
Closing net debt/(cash)	(84.9)	(46.8)	(26.8)	(44.6)	64.5

Source: Company accounts, Edison Investment Research

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