EDISON

Volt Resources

Company update

Volt recharged by fund-raising

Metals & mining

Volt Resources' small A$1m convertible loan issue will be used for general working capital purposes. Obviously, of greater importance is the ultimate result of current proposed changes to the Tanzanian mining code. From our view of current events, this appears to relate to the issue of old highly favourable tax arrangements with gold miners. As such renegotiation of these existing agreements will not affect Volt, which does not have one as it is a pre-development mining company. Overall, the changes seem to be focused on precious metal and gemstone mining, and graphite (an industrial mineral) has its royalty level of 3% unchanged.

Year end	Revenue (A$m)	PBT* (A$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/15	0.0	(0.7)	(0.3)	0.0	N/A	N/A
06/16	0.0	(3.3)	(0.7)	0.0	N/A	N/A
06/17e	0.0	(2.4)	(0.2)	0.0	N/A	N/A
06/18e	0.0	(2.4)	(0.3)	0.0	N/A	N/A

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

Offtakes: Getting commercial terms in place for '18

Volt has a dedicated marketing team for its future graphite products, sending out samples to prospective customers, with feedback used to help refine processing and product quality control. Volt so far has four agreements covering all its planned phase 1 output of 20ktpa, and potentially up to 51kt if all agreements convert to commercial offtakes. Recently, and after Tanzanian mining code changes hit the media, Volt signed an offtake term-sheet with a Chinese company for an initial 10kt per annum of flake graphite product. This agreement could be seen as supportive of Namangale's development despite the current uncertainty in Tanzania.

Early-stage Volt well positioned to weather this storm

The current proposed legislative changes to the Tanzanian mining code could include the Tanzanian government taking a non-diluting 16% interest at the project level. A 1% 'clearing' tax on the value of any mineral exports could be implemented. This is effectively adding 1% to the existing (and unchanged) 3% royalty applicable to industrial, including graphite, products.

Valuation: On hold until revised project scope done

Our previous Namangale pre-feasibility study valuation of A$0.27/share is on hold while Volt completes a revised project scope and phasing for Namangale. This will involve a staged modular design to allow a ramp-up in production as the graphite market moves away from demand tied to traditional uses such as foundry products and towards growth in the markets for expandable graphite and battery anode material. However, in terms of its enterprise value per tonne of graphite resource (US$0.05), we calculate that it trades at a very high 99% discount to the wider market average of US$6.42/t. This is likely due to both its very large resource base and its early stage of project development.

28 July 2017

Price	**A$0.03**
Market cap	**A$29m**
	A$1.32/US$
Net cash (A$m) at 31 March 2017	1.3
Shares in issue	976.8m
Free float	61%
Code	VRC
Primary exchange	ASX
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(3.6)	(28.9)	(71.6)
Rel (local)	(4.9)	(27.6)	(72.6)
52-week high/low		A$0.13	A$0.03

Business description

Volt Resources is a graphite development company. Its main asset is the currently 100%-owned Namangale graphite project located in Tanzania. The company has completed a PFS, is now undertaking an FS on a revised modular project design and intends to initiate first graphite production by end 2018.

Next events

Stage 1 feasibility study	By end 2017

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Mining code changes, offtakes & staged development

Statement on Tanzanian government mining code changes

Volt and its legal counsel, including Tanzania-based lawyers, have provided a summary of what it thinks could result from the current situation in Tanzania. Press reports state that Tanzanian President John Magufuli, on Monday 10 July, signed into law a raft of new mining bills that require the government to own at least a 16% non-dilutable stake in mining projects. The key bill concerning the mining industry is called The Miscellaneous Amendments Act, which will be used to materially change the 2010 mining code previously legislated. In addition to the 16% non-dilutable interest, the government will be entitled to acquire up to 50% of the shares of a mining company based on the total value of tax incentives extended to the mining company. This latter "50%" entitlement is currently not thought relevant to Volt as it does not have a pre-existing agreement in place with the Tanzanian government.

Media reports also state that the president said that no new mining licences would be awarded until Tanzania "puts things in order".

A driving factor to the changes being seen in Tanzanian mining legislation has likely been the perception by central government that operating mining companies have benefited for many years from highly favourable tax arrangements, a situation that the Tanzanian authorities are now seeking to address.

As such, the government seeks to renegotiate these old agreements. Volt states that it has no pre-agreed deal with the government (largely due to it being a pre-development mining company) and is therefore not affected by this renegotiation. Volt's pre-development status also puts it in a relatively good position (compared to operating mines) as long as it maintains a progressive and amicable relationship with the Tanzanian authorities. As long as the Tanzanian government sees Volt's nascent, yet highly prospective, graphite mining projects as a key component of its economic growth (which it clearly should), then Volt's expedited development timeline of first production in 2018 is still feasible.

Offtakes: Diversified demand for Namangale graphite

Volt's strategy to develop the Namangale deposit into a fully-fledged graphite mine is now being led by Trevor Matthews, a mining executive with key experience in the very relevant field of industrial minerals development. This is important as it has allowed Volt to mobilise its non-executive chairman and former head chief Stephen Hunt to negotiate Chinese-borne offtake agreements. Mr Hunt works alongside Volt's other consultant Michael Lew, who oversees the marketing of Namangale products in North America and elsewhere.

The existence at Volt Resources of a dedicated marketing team is a step ahead of many other graphite developers and a point worth taking notice of. A considerable risk to mining and selling these opaquely traded bi-partisan contracted commodities is agreeing offtake agreements on commercial terms. From our experience elsewhere covering stocks with similar requirements, it is paramount that a company looks to develop its sales and marketing strategy and implement it as quickly as possible; we consider that Volt has been successful in this and is now reaping the rewards through its early-stage agreements covering up to 51kt of graphite concentrate (see Exhibit 1 for further details).

Sales and marketing of graphite products is a critical path component to development as the myriad of end-uses needs to be considered and married to the geological make-up of an in-situ natural graphite resource. This alignment of demand (offtake) to a deposit's unique characteristics results in an average optimised basket price for a tonne of graphite product, and de-risks revenue projections and, by extension, profit forecasts. This is crucial to financing these types of projects, especially in terms of sourcing debt.

Exhibit 1: Actual and indicative offtake agreements

Prospective clients	Offtake size (tpa)	Estimated timeline to complete binding offtake
NanoGraphene Inc (US)	1,000	Complete
GEM (China)	5,000	30 September 2017
Aoyo Graphite Group (China)	10,000-20,000	Post product trials – Q417
China National Building Materials General Machinery (China)	10,000-15,000	Post product trials – Q418
Qingdao Tianshengda Graphite (China)	10,000	30 September 2017

Source: Volt Resources

Staged project scope and short-term financing

Volt announced on 18 May that it plans to develop Namangale in stages, principally to allow key growth markets for graphite to establish and to help maintain healthy product prices by not dumping huge amounts of graphite concentrate into the market and potentially forcing product prices lower. The staged development of Namangale should also de-risk project financing through lowering capex requirements.

The broad scope outlined in the company's 18 May announcement is to build a first stage capable of generating c 10ktpa to 20ktpa of graphite concentrate, with this concentrate being shipped primarily to Chinese and North American markets, but also elsewhere as demand materialises. Stage 2 would simply be an expansion of stage 1, although it is anticipated that expansion will come in at a lower development price, as certain key infrastructure would already be in place (ie certain service roads and electrical equipment such as substations).

The key objectives needed to get this stage development plan to a bankable level are:

- Preparation of a stage 1 feasibility study based on production of 10ktpa to 20ktpa of graphite concentrate with stage 1 commencing production in mid-2018. This stage 1 feasibility study is due for release by end 2017.
- Determine an interim processing solution to produce graphite concentrate to deliver product to NanoGraphene Inc, and therefore facilitate early market testing of product from Namangale Project, in accordance with the current binding offtake agreement by January 2018 (announced 3 March 2017).
- Completion of sufficient binding offtake agreements, completion of project approvals and the grant of the mining licence(s), arranging of development of stage 1 to enable the commencement of construction by Q417.
- Completion of the stage 2 feasibility study based on the scalable development of the Namangale Project. The feasibility study will build on the previously released pre-feasibility study and incorporate the stage 1 development plan.

As a result of the above plan, our last valuation of A$0.27 per Volt share is on hold. We will need to revise our model for the new staged project scope and will publish a new valuation and forecasts following release of the revised scope and feasibility study.

Financing: Convertible loan note for A$1m

At end March 2017 the company reported its cash balance as A$1.3m.

Post 31 March, Volt has secured short-term financing consisting of a convertible loan facility raising A$1m from sophisticated investors. Proceeds from this financing are to be used for working capital purposes as it completes its revised Namangale feasibility study. Volt's management states that these funds will satisfy its working capital requirements until the end of 2017. The convertible loan facility carries the following structure and commitments:

- Convertible loan facility for 12 months, bearing a 10% coupon payable in cash, in arrears on a quarterly basis.
- Lenders can convert the facility into Volt shares at any time prior to maturity at a price of A$0.05 per Volt share.
- Volt can prepay amounts owing under the facility at any time, as long as it pays any interest amounts that would be due to the lender if the facility was allowed to run its term untouched.
- If repaid early by Volt, lenders will have a subscription right to acquire Volt shares at the conversion price at any time prior to the agreed maturity date.

Volt also expects A$4.8m from the exercise of its listed A$0.02 options, which mature 31 December 2017. We also note that the company has cancelled pre-existing performance rights and issued new performance rights aligned to certain milestones relating to the aforementioned staged development strategy for Namangale. A total of 34m performance rights vesting at varying dates and project milestones have been issued to five managers at Volt. For further details please see the company's 18 May ASX announcement.

Exhibit 2: Financial summary

Accounts: IFRS, Year-end: June, A$000s			2015	2016	2017e	2018e
Profit & loss account						
Total revenues			0	0	0	0
Cost of sales			0	0	0	0
Gross profit			0	0	0	0
SG&A (expenses)			(668)	(3,351)	(2,275)	(2,229)
Other income/(expense)			0	0	0	0
Exceptionals and adjustments	Exceptionals		0	0	0	0
Depreciation and amortisation			(3)	0	(245)	(245)
Reported EBIT			(670)	(3,351)	(2,520)	(2,474)
Finance income/(expense)			5	24	152	26
Other income/(expense)			0	0	0	0
Exceptionals and adjustments	Exceptionals		0	0	0	0
Reported PBT			(666)	(3,327)	(2,368)	(2,448)
Normalised PBT			(666)	(3,327)	(2,368)	(2,448)
Income tax expense (includes exceptionals)			0	0	0	0
Profit from discontinued operations (net of tax)			0	(480)	0	0
Reported net income			(666)	(3,807)	(2,368)	(2,448)
Basic average number of shares, m			244	583	968	976
Basic EPS (cents)			(0.3)	(0.7)	(0.2)	(0.3)
EPS (cents) FD			(0.2)	(0.4)	(0.2)	(0.2)
Balance sheet						
Property, plant and equipment			0	0	5,769	2,524
Goodwill			0	0	0	0
Intangible assets			0	0	0	0
Other non-current assets			703	10,773	10,773	10,773
Total non-current assets			703	10,773	16,542	13,297
Cash and equivalents			554	7,618	1,323	5,328
Inventories			0	0	0	0
Trade and other receivables			17	104	208	416
Other current assets			0	104	104	104
Total current assets			571	7,826	1,635	5,848
Non-current loans and borrowings			0	0	0	1,100
Other non-current liabilities			0	0	0	1,100
Total non-current liabilities			0	0	0	1,100
Trade and other payables			160	1,108	2,216	4,432
Current loans and borrowings			0	0	0	0
Other current liabilities			0	0	0	0
Total current liabilities			160	1,108	2,216	4,432
Equity attributable to company			1,336	17,707	16,177	13,829
Non-controlling interest			(222)	(216)	(216)	(216)
Cash flow statement						
Profit for the year			(666)	(3,807)	(2,368)	(2,448)
Depreciation and amortisation			3	0	245	245
Share based payments			216	1,774	100	100
Other adjustments			3	554	0	0
Movements in working capital			91	117	1,004	2,008
Cash from operations (CFO)			(353)	(1,362)	(1,019)	(95)
Capex			(24)	(3,039)	(5,882)	3,000
Acquisitions & disposals net			(178)	(364)	0	0
Other investing activities			0	0	(132)	0
Cash used in investing activities (CFIA)			(202)	(3,403)	(6,014)	3,000
Net proceeds from issue of shares			590	11,829	546	0
Movements in debt			0	0	0	1,100
Other financing activities			0	0	192	0
Cash from financing activities (CFF)			590	11,829	738	1,100
Currency translation differences and other			0	0	0	0
Increase/(decrease) in cash and equivalents			36	7,064	(6,295)	4,005
Cash and equivalents at end of period			554	7,618	1,323	5,328
Net (debt) cash			554	7,618	1,323	4,228
Movement in net (debt) cash over period			554	7,064	(6,295)	2,905

Source: Company accounts, Edison Investment Research

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