

# DVP: Another commodity in the belt.

DVP.ASX | DEVELOP GLOBAL LIMITED | MATERIALS | METALS & MINING

PRICE	TARGET PRICE	RECOMMENDATION	ANALYST
<b>3.46/sh</b>	<b>3.90/sh</b> (UNCHANGED)	<b>BUY</b> (UNCHANGED)	<b>KYLE DE SOUZA</b> KDESOUZA@EUROZHARTLEYS.COM

## Event

DVP makes all scrip bid for the Essential Metals' Pioneer Dome Lithium Project.

DFS on Sulphur Springs released.

## Impact

The all-scrip bid for Essential Metals Pioneer Dome appears transformational for DVP adding near-term Lithium production upside. Material to the acquisition is;

1. The element. Lithium is not in its current portfolio and adds to its 'energy transition' position.
2. The mining method. Pioneer Dome has always been considered an open-pit asset. DVP is made of underground DNA. **The geometry of this asset can also be mined via less capital intensive (and environmentally friendly) underground mining methods.** DVP has not indicated how they will mine the asset as yet.

EH released metrics for valuing Lithium projects in a note titled [Lithium: How small is too small, how big is world-class?](#) which postulates that "every 10Mt of resource that has a clear pathway to production increases to A\$150-300m of speculative development value". Through this lens, a \$152.6m price tag for 11.2Mt is a good deal for shareholders - we derive a \$336m high level valuation on the project.

A scoping study on the Pioneer Dome project by ESS released on 7th February 2023 demonstrated an NPV10% (real, after tax) of \$376m shipping just DSO product. There are no reserves on the Pioneer Dome project; however, **cross-sections released by ESS suggest an easy-to-mine, single-lode ore body - suitable for underground mining.**

**Funds from the \$50m capital raising will be used to accelerate development at Pioneer Dome and prepare for the resumption of production at Woodlawn and additional capital development to de-risk the project.**

High costs of capital current spot prices and high costs of capital Sulphur Springs development is deferred. **We believe that a more likely scenario is the ramp up of Woodlawn, then Pioneer Dome.**

## Action

We expect the transaction with ESS will go ahead as it is a fair deal for DVP and ESS shareholders on a value basis. Our PT is based on a risked DCF modelling of all the assets, with a \$336m high level valuation on the Pioneer Dome project. We conservatively use EH deck prices in our modelling, with no consideration for spot prices, which are higher.

All assets remain leveraged to commodity prices. We maintain our BUY recommendation and price target of \$3.90/sh.

## Catalyst

ESS acquisition completes (targeted for Oct'23)

Commodity prices (Specifically Li, Cu and Zn)

Woodlawn production re-start

Exploration results (massive sulphides intercepted at new target at Woodlawn)

## MARKET STATISTICS

Share Price	3.43	A\$/sh
Valuation (EH Deck)	3.11	A\$/sh
Price Target	3.90	A\$/sh
Fully Paid Ord	196.0	m
Options (var. prices)	31.8	m
<b>Total Dil. FPOrd</b>	<b>227.8</b>	<b>m</b>
Market Capitalisation (dil)	\$781	m
Enterprise Value	\$707	m
Cash and Bullion	\$50	m
Debt	-\$24	m

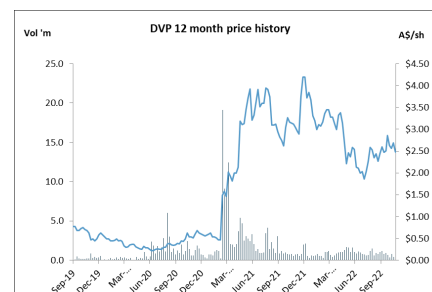
## ASSET VALUATION

	A\$m	A\$/sh
(+) Sulphur Springs	11	\$0.06
(+) Woodlawn	472	\$2.41
(+) ANX Share	54	\$0.27
(+) Pioneer Dome		
(+) Mining Services	101	\$0.52
(-) Tax	(118)	-\$0.60
(-) Corporate	(36)	-\$0.18
(+/-) Hedging	48	\$0.25
(+) Exploration	50	\$0.26
(+) Cash & Investments	50	\$0.26
(-) Debt	(24)	-\$0.12
<b>Valuation using EH Deck</b>	<b>\$608</b>	<b>\$3.11</b>

## DIRECTORS

B. Beament	MD
S. In't Veld	NED
J. McGee	NED

## Performance



Source: Euroz Hartleys

## Executive Summary

Figure 1: Company Valuation using EH Deck and 12% WACC

ASSET VALUATION	Val	
	A\$m	A\$/sh
(+) Sulphur Springs	11	\$ 0.06
(+) Woodlawn	472	\$ 2.41
(+) ANX Share	54	\$ 0.27
(+) Pioneer Dome		
(+) Mining Services	101	\$ 0.52
(-) Tax	(118)	-\$ 0.60
(-) Corporate	(36)	-\$ 0.18
(+) Management Premium	48	\$ 0.25
(+) Exploration	50	\$ 0.26
(+) Cash & Investments	50	\$ 0.26
(-) Debt	(24)	-\$ 0.12
<b>Valuation</b>	<b>\$ 608.62</b>	<b>\$ 3.11</b>

Source: Euroz Hartleys

Figure 2: Valuation at Spot Prices (assume Pioneer Dome is voted down)

ASSET VALUATION	Val	
	A\$m	A\$/sh
(+) Sulphur Springs	63	\$ 0.32
(+) Woodlawn	515	\$ 2.63
(+) ANX Share	64	\$ 0.33
(+) Pioneer Dome		
(+) Mining Services	101	\$ 0.52
(-) Tax	(143)	-\$ 0.73
(-) Corporate	(36)	-\$ 0.18
(+) Management Premium	58	\$ 0.29
(+) Exploration	50	\$ 0.26
(+) Cash & Investments	50	\$ 0.26
(-) Debt	(24)	-\$ 0.12
<b>Valuation</b>	<b>\$ 698.68</b>	<b>\$ 3.56</b>

Source: Euroz Hartleys

Figure 3: Valuation including Pioneer Dome, using EH deck and WACC of 12% and diluted for transaction.

ASSET VALUATION	Val	
	A\$m	A\$/sh
(+) Sulphur Springs	11	\$ 0.05
(+) Woodlawn	472	\$ 1.96
(+) ANX Share	54	\$ 0.22
(+) Pioneer Dome	336	\$ 1.39
(+) Mining Services	101	\$ 0.42
(-) Tax	(118)	-\$ 0.49
(-) Corporate	(36)	-\$ 0.15
(+) Management Premium	48	\$ 0.20
(+) Exploration	50	\$ 0.21
(+) Cash & Investments	50	\$ 0.21
(-) Debt	(24)	-\$ 0.10
<b>Valuation</b>	<b>\$ 944.62</b>	<b>\$ 3.92</b>

Source: Euroz Hartleys

Figure 4: Valuation including Pioneer Dome, using Spot Prices and WACC of 12% and diluted for transaction.

ASSET VALUATION	Val	
	A\$m	A\$/sh
(+) Sulphur Springs	63	\$ 0.26
(+) Woodlawn	515	\$ 2.14
(+) ANX Share	64	\$ 0.27
(+) Pioneer Dome	336	\$ 1.39
(+) Mining Services	101	\$ 0.42
(-) Tax	(143)	-\$ 0.59
(-) Corporate	(36)	-\$ 0.15
(+) Management Premium	58	\$ 0.24
(+) Exploration	50	\$ 0.21
(+) Cash & Investments	50	\$ 0.21
(-) Debt	(24)	-\$ 0.10
<b>Valuation</b>	<b>\$ 1,034.68</b>	<b>\$ 4.29</b>

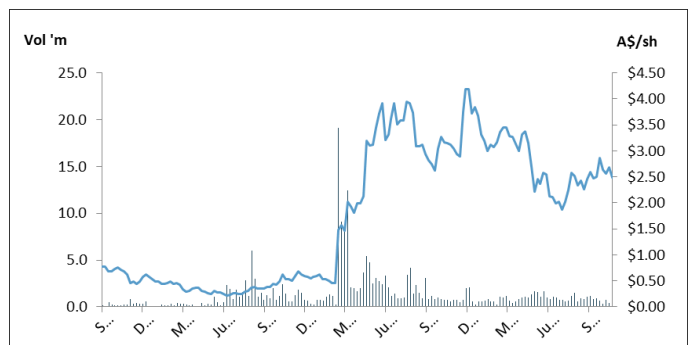
Source: Euroz Hartleys

Figure 5: Market Sensitivity

<b>Our Market Sensitivity</b>
Valuation - \$3.11/sh
Price Target - \$3.90/sh
<b>Bull Scenario \$4.29/sh</b>
Spot pricing for Zn and Cu, and 0.66 AUD:USD. Assumes this transaction goes ahead.
<b>Base Scenario - \$3.11/sh</b>
Excludes the Pioneer Dome transaction.
<b>Bear Scenario - \$1.19/sh</b>
Copper and Zinc prices fall to US\$2.50/lb and US\$1/lb. Sector derates on uncertainty and market outlook. Pioneer Dome deal fails.

Source: Euroz Hartleys

Figure 6: DVP 12 month history



Source: Euroz Hartleys

## Analysis - Sulphur Springs

Four (4) mining studies have been completed on Sulphur Springs. Ironically, this one is based on the same investment thesis as the first, **bypassing the surface transitional material, and going straight into the fresh with underground mining.**

We note the significant increase in the Zn component of the Resource, up 83% against the previous estimate in 2018.

We review the DFS numbers and make minor (conservative) changes to assumptions to come to our valuation for the Sulphur Springs asset.

Key discussion points on assumptions in the DFS are below;

- A 5% discount rate has been applied in the DVP analysis. EH applies a 12% WACC for all development scenarios. We maintain the DFS guided grades and believe the 0.5m hanging-wall and foot-wall assumptions are fair and reasonable. Copper grades fall over the mine life, whilst Zinc grades increase. We apply a flat 5.6% Zn, 1.1% Cu and 20.5g/t Ag value in our modelling.

- Mining costs are toward the bottom end for paste fill operations at \$52/t - and we have applied appropriate risking in our model to account for this. The mine design is simple, and clean, which does support lower costs. We expect labor shortages to continue in underground mining, which will see sustained pressure on operational costs (particularly in the Pilbara).

- We assume that capital works for the project start in FY25, with 50% of the capital funded from cash-flow at Woodlawn and the rest from another debt provider.

Inflation has pushed up the cost of capital for business, and our 12% WACC vs the DFS 5% does most of the value erosion for this project. EH long term commodity prices are set at mid-point of consensus and sit lower than the Develop DFS too.

Unless the Company can secure the an ultra-low cost debt package, and prices increase for base metal commodities, **we expect development of Sulphur Springs will be deferred.**

## Analysis - Pioneer Dome

The all scrip deal from DVP gives ESS shareholders a pathway to monetisation of the asset utilising DVP's world class mining DNA. The ESS board have all voted in favor of the DVP deal with MinRes, voting their 19.55% stake in ESS in favor of DVP.

We don't attach a value to Pioneer Dome in our sum of the parts (SOTP) analysis as the deal has not been voted through as yet.

Key points we note about the deal;

- DVP are getting the asset for a good price, and ESS shareholders are also getting a good deal, noting DVP can unlock the value of the project.

- ESS gets exposure to a diversified battery metals mine owner and contractor, and pathway to monetisation.

- The ore body dimensions are suited to underground mining (DVP's DNA). Underground mining is a low capex, opportunity to monetise the asset.

Key points to note about the asset;

- A Scoping Study was completed by Primero and released to market on the 7th Feb 2023 where a NPV10% of \$367m was the Base Case, with 8.8Mt fed through the processing plant with a strip ratio of 13.3:1 and mine life of 7.3 years. The Company uses a Spodumene Concentrate price (5-7%, US\$/t FOB Esperance Port) of US\$1500/t.

- This valuation falls in line with our modelled \$336m valuation on the asset based on high level numbers produced by EH.

- Strategically this acquisition is a proof on concept for underground lithium mining. Noting that there are no underground Lithium mines in the world (of scale), DVP could set the precedent for the practice. By default, this would make DVP a preferred contractor, with a demonstrated track record for underground Lithium mining and align perfectly with the brand.

We do want to make a few things clear when it comes to mining Lithium deposits.

1. The mining of Lithium underground is no different to mining any other commodity. Stock standard mining techniques can be used. In this particular scenario, we can see a mix of longitudinal open stoping and transverse stoping.
2. The key consideration for mining of Lithium (be it open pit or underground) is the management of dilution (waste material being blended in with ore). Dilution management in any mine is a cost management exercise, however in Lithium it is a critical risk (particularly if there is iron involved). Iron has a similar physical properties to spodumene, and is hard to separate through flotation. Extraction of iron is costly, and worst case scenario is delivery of product which is out of spec and is not accepted.
3. In underground lithium mines, overall geometry is key. To keep dilution at a minimum, we would expect that the minimum ore body width is 5m for mechanised mining (gold mines can go down to 2m). This is to reduce the risk of any dilution. In Lithium mines, we can expect a 'protective skin' >0.5m on the footwall and hanging-wall, so any 'over-break' and 'dilution' would be in the ore-body. This results in lower recovery of the over-all resource but importantly, security on the quality of the end product.
4. These rules of thumb do not apply to ore-bodies which do not have a consistent grade and quality throughout. Deleterious elements **within** a consistent ore-body still presents the same issues. DVP believes that the quality of the project is what set's it apart from others.

- The Scoping study on Pioneer Dome highlights an open pit mining cost of \$67/t which is comparable with underground mining costs. Here in lies the opportunity for DVP, which recently stated it could mine Sulphur Springs for a \$52/t mining cost at a similar thru put. Key difference being, the capex requirement for underground mining is much lower.

- The Cade lode (8.2Mt @ 1.26% which represents 73% of the MRE) has an overall metallurgical recovery of 74-82% Li<sub>2</sub>O. Metallurgical test work to date suggests that the Lithium concentrate is of marketable quality. This remains the key focus for the Company, as it is for us noting it is where the majority of the grade sits.

If the deal goes ahead, using high level analysis based on EH analysis by Senior Analysts here; [Lithium: How small is too small, how big is world-class](#), the 11Mt resource could be worth double the acquisition price. Using these rules of thumb we apply a \$336m valuation on the 11Mt resource (which comes out close to the Pimero study which indicated an NPV10% of \$367m.

Figure 7: Mineral Resources by deposit at Dome North

Deposit	Classification	Tonnes (Mt)	Li <sub>2</sub> O %	Ta <sub>2</sub> O <sub>5</sub> ppm	Contained Li <sub>2</sub> O (T)	Fe <sub>2</sub> O <sub>3</sub> %
Cade	Indicated	6.9	1.26	49	88,000	0.44
	Inferred	1.3	0.88	49	11,000	0.44
Davy	Indicated	1.6	1.08	81	18,000	0.54
	Inferred	0.6	0.89	73	4,000	0.58
Heller	Inferred	0.7	1.02	76	8,000	0.72
<b>Total</b>	<b>Total</b>	<b>11.2</b>	<b>1.16</b>	<b>57</b>	<b>129,000</b>	<b>0.48</b>

Note: Appropriate rounding applied.

Source: DVP

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Develop Global Limited (DVP.ASX) | Price 3.46 | Target price 3.90 | Recommendation BUY;

*Price, target price and rating as at 10 July 2023 (\* not covered)*

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