

23 February 2021

# Euro Manganese Incorporated

## Specialty Minerals and Metals

**Rating**  
**SPECULATIVE BUY**  
unchanged

**Price Target**  
**A\$1.30↑**  
from A\$0.55

**EMN-ASX**  
**EMN-TSX**

**Price**  
**A\$0.70**

### Market Data

52-Week Range (A\$) :	0.04 - 0.96
Avg Daily Vol (M) :	2.6
Market Cap (A\$M) :	195.8
Shares Out. (M) :	279.8
Enterprise Value (A\$M) :	194
NAV /Shr (A\$) :	1.55
NAV /Shr (5%) (A\$) :	1.00
Net Cash (A\$M) :	1.9
P/NAV (x) (A\$) :	0.53

FYE Sep	2020E	2021E	2022E	2023E
EBITDA (C\$M)	(3.8)	(2.0)	(4.8)	(4.8)



Priced intraday 23 February 2021

Euro Manganese (ASX:EMN) is incorporated in Canada and 100% owns the Chvaletice manganese project in the Czech Republic. A Preliminary Economic Assessment (PEA) was released in Jan'19 highlighting the potential for ~50ktpa of production over a 25 year mine life of High Purity electrolytic Manganese Metal (HPMM) used in the lithium ion battery sector.

Canaccord Genuity (Australia) Limited has received a fee as Lead Manager to the Euro Manganese Inc Capital Raising announced 20 October 2020.

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## Czech this out! Increasing target to A\$1.30 (from A\$0.55)

### EIT InnoEnergy backing an important step to de-risking

EMN has announced that it has secured the support of EIT InnoEnergy to assist in the integration the Chvaletice Manganese project into European battery supply chain. The support of the project is vindication of work done by EMN and Chvaletice's expected position within the supply chain. As we [recently highlighted](#), the EV transition has accelerated in Europe and is tracking above market expectations. We have also seen a concerted shift in policy to align with this transition. We have updated our model, lowering our discount rate from 12% to 8% and lifted our risk weighting from 40% to 50%. **We lift our price target to A\$1.30 (from A\$0.55) and maintain SPECULATIVE BUY.**

EIT InnoEnergy will focus its efforts with EMN on three key areas:

- 1) Assist EMN with financing** of €362m for the commercialisation of the Chvaletice project. Potential sources of finance include economic development banks, European and regional grant programs and project finance banks. This will occur through the Business Investment Platform created by the European Battery Alliance. We have seen the cost of debt fall substantially, in this sector in particular, and this has contributed to our lower discount rate assumption.
- 2) Assist EMN with securing offtake** agreements with customers. Leveraging EIT's industry relationships within European EV, battery and cathode manufacturers.
- 3) Provide funding, investing €250k** over three tranches to support DFS and pilot plant trials. With the three tranches priced on the 10-day VWAP prior to the funding tranche.

### EIT InnoEnergy – coordinating the European battery supply chain

EIT InnoEnergy is an EU-funded organisation with the aim of building a sustainable, long-lasting operational framework amongst industry, research and higher education. It places an emphasis on more efficient and high impact innovation across greater Europe. It has invested in ~380 sustainable energy related start-ups, with over 30 of those related to storage across Europe, including Northvolt, Infinity Lithium Corporation (INF-ASX) and Vulcan Energy Resources (VUL-ASX). EIT has invested €560m since 2010 in sustainable energy innovations and projects, these projects have gone on to raise €2.5b in funding. EIT has been entrusted by the European Commission to promote, provide background data and define key questions, recommendations and actions for the [European Battery Alliance](#).

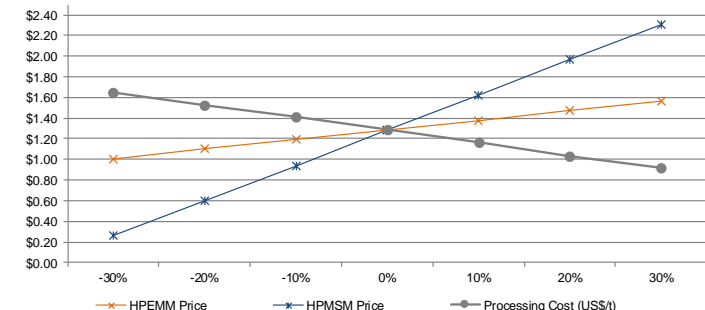
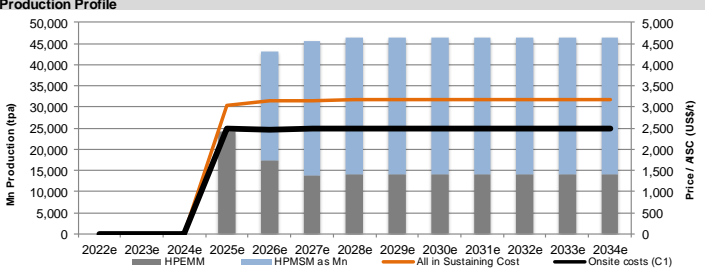
### EU battery supply chain stimulus steps up

The EU has a high level of co-ordination within the battery supply chain, [setting the standard for legislation](#) on batteries and establishing framework for the development of the industry. This received a major boost on 29 January with the EU's approval of a €2.9b European research and innovation project. This builds on a previously Important Project of Common European Interest funding package of €3.2b which was announced in 2019. We anticipate these funds to place a strong emphasis on the battery supply chain.

### Valuation and recommendation

Our NAV has lifted to A\$1.30/share after reducing our discount rate from 12% to 8%, in line with our battery materials coverage, and increasing our risk weighting to 50% from 40%. We retain our SPECULATIVE BUY rating.

Figure 1: Financial summary for Euro Manganese

Euro Manganese		EMN:ASX		EMN:TSX		SPEC BUY	
Analyst :	Tim Hoff						AS\$1.30
Date:	23/02/2021						
Year End:	September						
Market Information							
Share Price	A\$	0.69	C\$	0.57			
Market Capitalisation	A\$m	193.8	C\$m	160.1			
12 Month Hi	A\$	0.96	C\$	0.85			
12 Month Lo	A\$	0.04	C\$	0.01			
Issued Capital	m	280.9					
Options	m	18.4					
Future Diluted	m	299.2					
Valuation		C\$m	Equity	Risking	A\$m	A\$/share	
Chvalteice	NPV @ 8%	824	1.00	50%	443	1.48	
Corporate		-54			-58	-0.19	
Net cash/ (debt)		4			0	0.00	
TOTAL Net Asset Valuation		774			385	1.29	
Price/NAV						0.54	
Target Price						1.30	
Assumptions		2018a	2019a	2020e	2021e	2022e	2023e
EMM (99.7%) (US\$/t)		2,323	2,315	1,987	1,975	2,000	2,000
HPEMM (US\$/t)		4,767	3,011	2,886	2,975	3,000	3,000
HPMSM (32% Mn) (US\$/t)		2,263	1,248	1,297	1,679	1,800	2,025
Sensitivity							
							
Production Metrics		2018a	2019a	2020e	2021e	2022e	2023e
Chvalteice							
HPEMM		0	0	0	0	0	0
HPMSM as Mn		0	0	0	0	0	0
HPMSM		0	0	0	0	0	0
C1 Costs (US\$/t)							
All in Cost (US\$/t)		0	0	0	0	0	0
Production Profile							
							
Reserves & Resources		Mt	Mn%	Sol. Mn%	Mn (kt)	Sol. Mn (kt)	
Resources (100%)							
Measured		26.5	7.32%	5.86%	1,940	1,553	
Indicated		0.5	7.85%	6.05%	36.42	28	
Total		27.0	7.33%	5.86%	1,976	1,581	
Company Description							
Euro Manganese (ASX:EMN) is a mineral exploration company incorporated in Canada and 100% owns the Chvalteice manganese project in the Czech Republic. A Preliminary Economic Assessment (PEA) was released in Jan'19 highlighting the potential for ~50ktpa of production over a 26 year mine life of High Purity electrolytic Manganese Metal (HPMM) that is expected to command pricing premia from potential customers in the lithium ion battery sector.							
Profit & Loss (C\$m)		2018a	2019a	2020e	2021e	2022e	2023e
Revenue		0.0	0.0	0.0	0.0	0.0	0.0
Operating Costs		-2.6	-4.9	0.0	0.0	0.0	0.0
Corporate & O'heads		-1.9	-3.4	-3.5	-2.0	-4.8	-4.8
Exploration (Expensed)		-1.9	0.0	-0.3	0.0	0.0	0.0
EBITDA		-6.4	-8.3	-3.8	-2.0	-4.8	-4.8
Dep'n		0.0	0.0	0.0	0.0	0.0	0.0
Net Interest		-0.1	0.0	0.0	0.1	-7.9	-10.0
Other		0.0	0.0	0.0	0.0	0.0	1.0
Tax		0.0	0.0	0.0	0.0	0.0	0.0
NPAT (reported)		-6.5	-8.3	-3.7	-1.9	-12.7	-14.8
Abnormals		0.0	0.0	0.0	0.0	0.0	0.0
NPAT		-6.5	-8.3	-3.7	-1.9	-12.7	-14.8
EBITDA Margin		nm	nm	nm	nm	nm	nm
EV/EBITDA		nm	nm	nm	nm	nm	nm
EPS		-\$0.01	-\$0.01	\$0.00	\$0.00	-\$0.01	-\$0.01
EPS Growth		nm	nm	nm	nm	nm	nm
PER		-66.6x	-54.8x	-139.5x	-403.1x	-61.3x	-52.4x
Dividend Per Share		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield		0%	0%	0%	0%	0%	0%
Cash Flow (C\$m)		2018a	2019a	2020e	2021e	2022e	2023e
Cash Receipts		0.0	0.0	0.0	0.0	0.0	0.0
Cash paid - suppliers/labour		-5.5	-8.3	-3.5	-2.0	-4.8	-4.8
Tax Paid		0.0	0.0	0.0	0.0	0.0	0.0
Net Interest		0.0	0.1	0.0	0.1	-7.9	-10.0
+/- Working cap change		0.5	0.6	3.4	0.0	0.0	0.0
Operating Cash Flow		-5.0	-7.6	-0.1	-1.9	-12.7	-14.8
Exploration and Evaluation		0.0	0.0	-0.5	0.0	0.0	0.0
Capex		0.0	-1.0	-1.3	-6.7	-6.7	-40.1
Other		-0.4	-2.2	0.0	0.0	0.0	0.0
Investing Cash Flow		-0.4	-3.2	-1.8	-6.7	-6.7	-40.1
Debt Drawdown (repayment)		0.0	0.0	0.0	0.0	200.4	0.0
Share Capital		12.9	2.4	11.3	1.7	0.4	0.0
Financing Expenses		0.0	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow		12.9	2.4	11.3	1.7	200.8	0.0
Opening Cash		2.9	10.4	4.1	14.1	7.2	188.7
Increase / (Decrease) in cash		7.5	-8.4	9.4	-6.9	181.5	-54.9
FX Impact		0.0	0.0	0.0	0.0	0.0	0.0
Closing Cash		10.4	1.9	13.4	7.2	188.7	133.8
Op. Cashflow/Share		-\$0.04	-\$0.04	\$0.00	-\$0.01	-\$0.04	-\$0.05
P/CF		-16.1x	-15.9x	-1870.3x	-101.4x	-15.3x	-13.1x
EV/FCF		nm	nm	nm	nm	nm	nm
FCF Yield		-3%	-6%	-1%	-4%	-10%	-28%
Balance Sheet (C\$m)		2018a	2019a	2020e	2021e	2022e	2023e
Cash + S/Term Deposits		10.4	4.1	14.1	7.2	188.7	133.8
Other current assets		0.3	0.2	0.0	0.0	0.2	0.4
Current Assets		10.7	4.2	14.2	7.2	188.9	134.1
Property, Plant & Equip.		0.4	0.4	1.7	8.4	15.1	55.2
Exploration & Develop.		1.2	1.2	1.5	1.5	1.5	1.5
Other Non-current Assets		0.0	1.0	1.1	6.4	11.8	43.9
Payables		0.9	0.6	0.0	0.0	0.1	0.2
Short Term Debt		0.0	0.2	0.0	0.0	0.0	0.0
Long Term Debt		0.0	0.0	1.1	1.1	201.6	201.5
Other Liabilities		0.8	0.3	3.9	9.3	14.7	46.9
Net Assets		10.5	5.9	13.5	13.2	1.0	-13.9
Shareholders Funds		20.0	23.0	34.3	36.0	36.4	36.4
Reserves		1.5	2.2	2.2	2.2	2.2	2.2
Retained Earnings		-11.0	-19.3	-23.0	-24.9	-37.6	-52.4
Total Equity		10.5	5.9	13.5	13.2	1.0	-13.9
Debt/Equity		0%	0%	8%	8%	20733%	-1453%
Net Debt/EBITDA		2.1x	0.2x	159.7x	3.2x	-1.0x	-4.6x
Net Interest Cover		nm	nm	-355.0x	-95.1x	-0.5x	-0.4x
ROE		-62%	-141%	-28%	-14%	-1302%	107%
Book Value/share		\$0.09	\$0.03	\$0.06	\$0.05	\$0.00	\$0.00

Source: Company Reports, Canaccord Genuity estimates

## Appendix: Important Disclosures

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### Investment Recommendation

Date and time of first dissemination: February 23, 2021, 03:18 ET

Date and time of production: February 23, 2021, 03:18 ET

### Target Price / Valuation Methodology:

Euro Manganese Incorporated - EMN

Our A\$1.30/share price target is based on a NAV/share approach, applying 50% risking to our project NPV8%.

### Risks to achieving Target Price / Valuation:

Euro Manganese Incorporated - EMN

**Financing risks:** Our analysis suggests that EMN will require additional capital to fund the development costs for the Chvalatice Manganese project. As a pre-cashflow company, EMN is reliant on equity/debt/external capital to fund capital commitments, and there is no guarantee that accessing these markets will be achieved without dilution to shareholders. Furthermore, accurate estimates of capital costs for the project remain subject to completion of pre-feasibility and feasibility studies, which may see capital requirements exceed our model assumptions. There is no guarantee that studies will result in a positive investment decision for the project.

**Operational risks:** Once in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical (meeting design recoveries within a complex flowsheet), materials handling and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets and negatively impact valuation. Further, the product purity may differ from initial test work interpretations which can also materially impact product acceptance by customers and therefore earnings from forecast production.

**Exploration risks:** Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with exploration techniques and lack of accuracy in interpretation of geochemical, geophysical, drilling and other data. Our model assumptions include a significant amount of Indicated, Inferred and assumed resources, which may or may not ultimately be proven to be economic and converted into Reserves.

**Market risks:** EMN is involved in the development of a high purity product into a sector that is projected to have rapid growth. Given that EMM's level of proposed production is close to the current global supply, market discovery will form a large part of sustaining the potential earnings of the CMP. Commodity price and currency fluctuation The company as a near term manganese producer is exposed to commodity price and currency fluctuations, often driven by macro-economic forces including inflationary pressure, interest rates and supply and demand of commodities. These factors are external and could reduce the profitability, costing and prospective outlook for the business.

**Sovereign risk:** The Czech Republic is a fiscally stable jurisdiction but has a small and tightly regulated mining sector. The CMP as a waste reclamation project offers a development aligned to current regulation with in country permitting and approvals risks highlighted in our Investment in Czech Republic section here.

## Distribution of Ratings:

### Global Stock Ratings (as of 02/23/21)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	585	64.14%	59.83%
Hold	164	17.98%	43.90%
Sell	11	1.21%	45.45%
Speculative Buy	135	14.80%	79.26%
	912*	100.0%	

\*Total includes stocks that are Under Review

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**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

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**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

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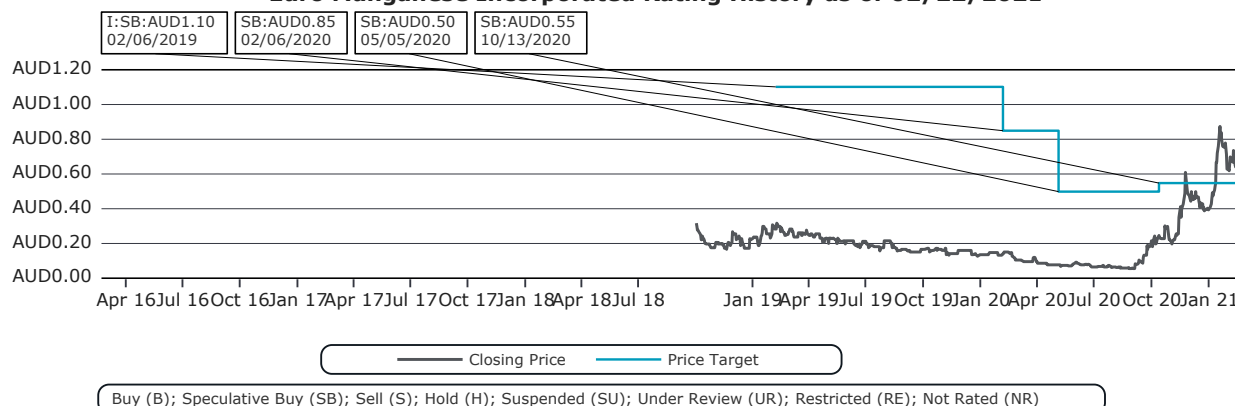
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Canaccord Genuity (Australia) Limited has received a fee as Lead Manager to the Euro Manganese Inc Capital Raising announced 20 October 2020.

### Euro Manganese Incorporated Rating History as of 02/22/2021



Buy (B); Speculative Buy (SB); Sell (S); Hold (H); Suspended (SU); Under Review (UR); Restricted (RE); Not Rated (NR)

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