

13th May 2022

Centrex Limited (ASX:CXM)

With ultra-low cadmium rock phosphate ready to be produced at a rate of 240tkpa, Centrex is a high-conviction speculative buy. Our base-case 12-month target is A\$0.28/share (fully-diluted). Underpinning this valuation is a post-tax NPV(11%) x 80% from the company's Ardmere rock-phosphate project in Queensland, Australia.

We believe Centrex will "cash-in" on near-term record-high rock phosphate prices. Positive operating cash-flow will allow Centrex to fund an expansion to an 800tkpa operation while minimising equity dilution. The expansion to 800tkpa is expected to cost ~A\$80m with potentially up to ~65% coming from debt.

Excitingly, there is potential for rock-phosphate prices to extend even further beyond their current US\$249/t level in the short-term. This is due to the geopolitical situation surrounding Russia and the pausing of Chinese exports. Russia is a source of ultra-low cadmium rock phosphate that is comparable to Ardmere. We therefore believe Ardmere's premium product will be in high demand in the absence of Russian product.

Centrex are well funded after a recent A\$16m capital raising at \$0.14/share. This capital will underpin the company's move to 240tkpa production with sales starting as soon as September 2022. We also note that the company is now free of any significant debt after the conversion of a convertible note.

Our 12-month target ascribes no value to the Oxley Potash Project or the Goulburn Base Metals project. We believe that Oxley has hidden value within Centrex that could be unlocked once Ardmere is fully operational. We will re-evaluate these projects at a future date when development plans for these assets emerge. **Speculative Buy.**

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Speculative Buy	
Last Close	\$0.115
12m Target Price	\$0.28

- High quality rock-phosphate product which will command a premium to spot pricing.
- Recession proof commodity with additional macroeconomic tailwinds.
- Geopolitical stability in a tier-1 jurisdiction, on a mining lease and close to labour at Mt. Isa.
- Logistical advantages for domestic end-users.
- High-grade deposit with a low-strip ratio reduces sensitivity to mining costs increasing.
- Free-dig and at surface ore means low technical risk for mining.
- Centrex can self-fund a portion of the expansion to 800tkpa from near-term 240tkpa production.
- Potential to reduce long-term operating costs by changing the location of the plant.
- Valuation underpinned by near-term cashflows and is unlocked with a low CAPEX vs MCAP.
- Management with significant skin in the game.
- Potential to develop Oxley (potash) in the future.

Shares On Issue	606.86m
Options / Perf.	82.71m
Fully Diluted	689.57m
Market Cap	\$69.8m
Fully Diluted Market Cap	\$79.3m

Name	Title
Mr. Peter Hunt	Non-Executive Chairman
Mr. Graham Chrisp	Non-Executive Director
Dr. A. John Parker	Non-Executive Director
Mr. Robert Mencil	MD / CEO

Shareholders	Shares	%
Dapop P/L*	110.9m	18.28%
Aus & NZ Res Corp P/L*	59.5m	9.81%
Wisco Int Res Dev & Inv Ltd	40.4m	6.66%
HSBC Custody Nom. Ltd	23.4m	3.85%
Batou Iron & Steel Grp Ltd	21.9m	3.60%
Top 20 Shareholders	356.9m	58.81%

*Management.

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Valuation Assumptions:

Date	Production	Price	Milestones
July-Dec 2022	25kt sold in Sept. 60kt sold in Oct-Dec.	US\$250/t	800ktpa studies complete. FID for 800ktpa is reached.
Jan-Dec 2023	20kt per month sales maintained during construction.	US\$200/t	Financed secured for 800ktpa. 800ktpa construction commences.
Jan-Dec 2024	66.66kt per month production.	US\$200/t	Full scale production commences.
Jan 2025 - June 2032	Flat rate production of 66.66kt per month	US\$150/t	Production continues.
July 2033 onwards	N/A	N/A	3x free cashflow terminal multiple applied to Ardmore.

	Present	Studies	Finance	Construction	Commission	Production
Disc. Rate	50%	60%	70%	80%	90%	95%
1%	\$0.35	\$0.42	\$0.49	\$0.56	\$0.63	\$0.66
2%	\$0.32	\$0.39	\$0.45	\$0.52	\$0.58	\$0.62
3%	\$0.30	\$0.36	\$0.42	\$0.48	\$0.54	\$0.57
4%	\$0.28	\$0.34	\$0.39	\$0.45	\$0.51	\$0.53
5%	\$0.26	\$0.31	\$0.37	\$0.42	\$0.47	\$0.50
6%	\$0.24	\$0.29	\$0.34	\$0.39	\$0.44	\$0.47
7%	\$0.23	\$0.27	\$0.32	\$0.37	\$0.41	\$0.43
8%	\$0.21	\$0.26	\$0.30	\$0.34	\$0.39	\$0.41
9%	\$0.20	\$0.24	\$0.28	\$0.32	\$0.36	\$0.38
10%	\$0.19	\$0.23	\$0.26	\$0.30	\$0.34	\$0.36
11%	\$0.18	\$0.21	\$0.25	\$0.28	\$0.32	\$0.33
12%	\$0.17	\$0.20	\$0.23	\$0.26	\$0.30	\$0.31
13%	\$0.16	\$0.19	\$0.22	\$0.25	\$0.28	\$0.30
14%	\$0.15	\$0.18	\$0.20	\$0.23	\$0.26	\$0.28
15%	\$0.14	\$0.16	\$0.19	\$0.22	\$0.25	\$0.26

CXM base case valuation matrix, discount rate vs NPV discount.

Source: Strathmore Investment Management Pty Ltd

We believe there is scope to re-rate to 28 cents/share (Post-Tax NPV[11%] x 80%) within 12 months as construction for a 800ktpa production rate is underway. We have applied a high NPV discount rate to account for rate hikes and a “risk-off” investment environment over the next 12 months.

Key Risk	Mitigating factor
Rock phosphate price fall.	None as production will not be hedged.
CAPEX required for 800ktpa rate is higher.	We have forecast for \$90m, \$10m higher.
Remote location increases OPEX.	Ability to relocate to Mt. Isa or Townsville.
Difficulties during mining hurts margins.	Free-dig, low-strip and high-grade reduces costs.
Commissioning of processing hub.	Conventional technology being used.
Signing the remainder of off-take.	Unnecessary for selling the product.
Timely execution of key milestones.	Competent management with relevant experience.

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We note the following about our fair value estimate:

- Given the near-term tightness in ultra-low cadmium rock-phosphate, we believe it is possible for Centrex to realise pricing above our base-case assumptions leading up to the FID for their 800ktpa expansion. Higher realised pricing would reduce dilution for the company's expansion to 800ktpa.
- We have assumed CAPEX is \$10m higher than the anticipated ~\$80m figure produced in the DFS to account for the current inflationary environment. To fund CAPEX, we have assumed \$15m will be raised by issuing new equity at 18 cents a share, \$55m is from bank debt (10% interest rate) and the rest from cash reserves. Debt has been modelled to be paid off within ~2 years by using 40% of the free-cashflows generated by Ardmore.
- The company's share price may become increasingly more correlated with the rock-phosphate price as the company is now a near-term producer. Share price strength would reduce the anticipated dilution that we have forecast and hence further increase our valuation on a per share basis.
- Ardmore has an ore reserve of 10.1MT at 30.2% P₂O₅. The vast majority of this reserve will be mined by July 2032. We have assumed a terminal value for Centrex of 3x free-cashflows. There is upside to the valuation in the event further drilling can build up a significant level of additional reserves.
- We have assumed no development of Oxley and have assigned it a value of \$0 in our base case valuation. Oxley was purchased from Sheffield Resources Ltd (ASX:SFX) for \$4m in 2018. Oxley is situated in Western Australia and has a 155mt inferred mineral resource at 8.3% K₂O (6% cut-off grade). An exploration target of 0.5-0.8bt of 7.5-9.5% K₂O was previously announced. Although the grade of Oxley is low compared to other potash peers, the resource uniquely starts from surface and only dips moderately. Metallurgy has shown to be amenable to salt flux with a 90% extraction rate. The project sits close to infrastructure, rail and port. We are excited about the potential for Oxley to be developed from the free cash flows generated by Ardmore, which would further increase our base-case valuation.

SWOT Analysis

STRENGTHS	WEAKNESSES
1) Ardmore is ultra-low cadmium and will likely command a premium. 2) Free dig and high-grade reduces sensitivity to input cost increases. 3) Credentialed management team. 4) Opportune timing to "cash-in" on record high rock phosphate prices. 5) Freight advantage vs African producers.	1) Move to 800ktpa will require additional debt/equity. 2) Dilution to come from the equity component for CAPEX is unknown. 3) Project location is remote. 4) Overly exposed to the price performance of rock-phosphate in the near-term.
OPPORTUNITY	THREATS
1) Reduction of OPEX by relocating processing hub. (Mt. Isa or Townsville). 2) Development of Oxley using free-cash flows from Ardmore, transforming Centrex into a multi-commodity producer, and increasing the valuation substantially. 3) Potential to increase mine-life at Ardmore through extensional drilling.	1) Tensions with Russia resolve and Russian low-cadmium rock-phosphate comes back on the market. 2) China resume exports of rock-phosphate at a significant level. 3) Inflation on the 800ktpa CAPEX. 4) General economic conditions become unfavourable.

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Management

Finding the right expertise and talent to take a rock-phosphate resource through to production can be difficult. This is especially the case in Australia due to the relative scarcity of the product in the region. However, we believe that Centrex have assembled a highly relevant management and technical team that will be capable of delivering on anticipated milestones. Relevant rock-phosphate and mine development expertise within Centrex includes:

- Managing Director – Mr. Robert Mencil (appointed in May 2021)

Mr. Mencil was CEO of RONPHOS Corporation for 5 years. RONPHOS currently employs over 20% of the working population of the Republic of Nauru. 100mt of rock phosphate ore has been mined by RONPHOS to date.

- General Manager – Mr. Brian Hall (appointed Dec 2021 quarter)

Mr. Hall has over 30 years' experience building and operating mining and fertiliser projects. He was previously General Manager for Mount Gibson Mining and Maintenance Manager at RONPHOS Corporation.

- Commercial Manager – Mr. Stewart Bale (appointed Dec 2021 quarter)

Mr. Bale was previously the financial controller for RONPHOS Corporation. He has also held positions at BP Oil and Mount Kasi Gold Mines.

- Chief Technical Officer – Mr. Enzo Artone (appointed 27th April 2022)

Mr. Artone has 40 years' experience in the resources sector and has held senior positions at RIO Tinto, BHP, Newmont, WMC and Normandy. Key projects include the BHP brownfields expansion (\$2.3bn) and WMC Olympic Dam Expansion (\$1.5bn).

- Engineering and Projects Manager – Mr. Gavin Stewart (appointed 27th April 2022)

Mr. Stewart has 34 years' experience in the resources sector and has delivered on several greenfield projects. These include the Namakwa Sands Project, the KZN Sands Project, the Ginkgo and Snapper Mines, the WRP Mine, the Cataby Mine, the Balranald Mine, and Puttalam Mine. His most recent role was Operations Manager for Iluka Resources at their Jacintha Ambrosia Operation.

Financials

All figures are stated in millions of Australian dollars.

Income Statement	FY21/22	FY22/23	FY23/24	FY24/25	FY25/26
Revenue	0.00	64.64	148.57	200.00	171.43
COGS	0.00	35.14	61.29	91.43	91.43
Gross Profit	0.07	29.50	87.29	108.57	80.00
Finance Costs	-0.07	-0.69	-5.13	-2.20	-0.71
Depreciation expense	0.00	0.00	-6.98	-6.89	-6.81
<u>Pre-tax Income</u>	-4.45	27.17	73.54	97.83	70.83
Taxation	0.00	0.00	-19.38	-26.90	-19.48
<u>Net income for period</u>	-4.45	27.17	54.16	70.93	51.35

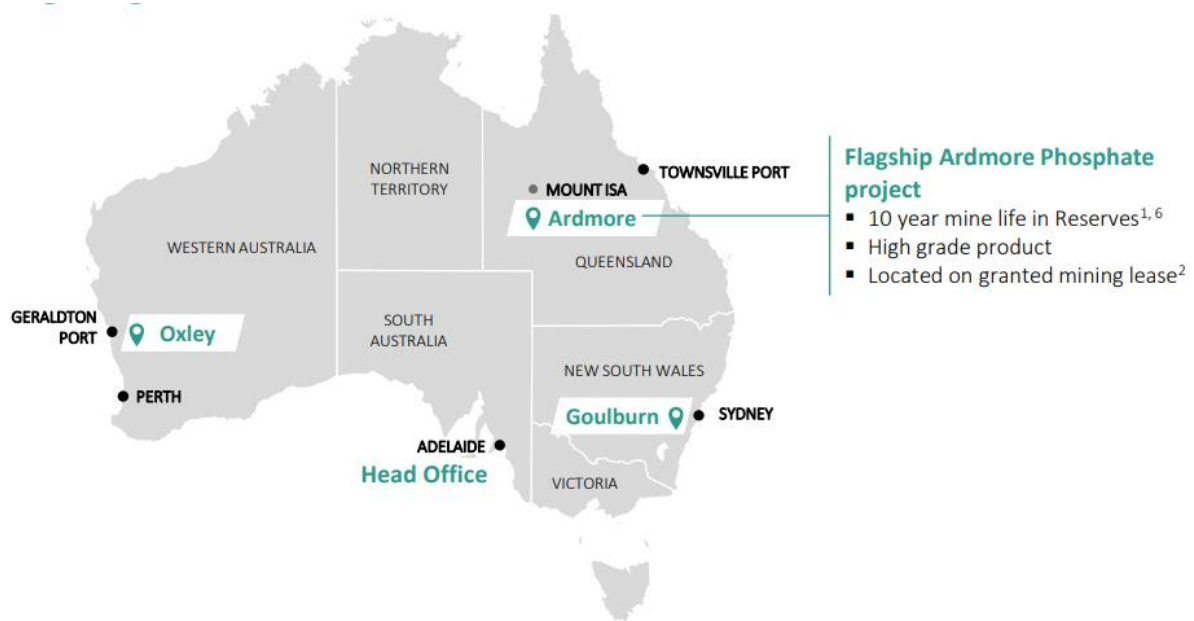
Cashflow Statement	FY21/22	FY22/23	FY23/24	FY24/25	FY25/26
Net Income	-4.45	27.17	54.16	70.93	51.35
Depreciation	0.00	0.00	6.98	6.89	6.81
<u>Net cash from operating</u>	-2.54	27.17	61.14	77.82	58.17
Expenditure on drilling	-2.26	-0.80	0.00	0.00	0.00
Exploration & Development (Capitalised)	-3.10	-16.73	-2.00	0.00	0.00
PPE	-3.14	-73.80	-7.00	-6.00	-6.00
<u>Net cash from investing</u>	-7.78	-91.33	-9.00	-6.00	-6.00
Proceeds from borrowings	0.00	55.00	0.00	0.00	0.00
Issue of equity	20.20	15.00	0.00	0.00	0.00
Repaying of debt	0.00	0.00	-17.95	-28.37	-8.68
Options exercise	0.43	0.00	4.08	0.00	0.00
<u>Net cash from financing</u>	19.47	69.10	-13.87	-28.37	-8.68
<u>Net change in cash</u>	9.15	4.93	38.26	43.45	43.49
<u>Cash at beginning of period</u>	1.33	10.47	15.41	53.67	97.12
<u>Cash at end of period</u>	10.47	15.41	53.67	97.12	140.60

Balance Sheet	FY21/22	FY22/23	FY23/24	FY24/25	FY25/26
Cash & cash equivalents	10.47	15.41	53.67	97.12	140.60
<u>Total current assets</u>	10.99	15.93	54.19	97.64	141.12
Exploration and evaluation expenditure	17.17	34.71	36.71	36.71	36.71
PPE	3.14	76.94	76.96	76.07	75.26
<u>Total non-current assets</u>	20.82	112.15	114.18	113.29	112.48
<u>Total assets</u>	31.81	128.08	168.37	210.92	253.60
Current liabilities	0.28	0.28	0.28	0.28	0.28
LT Borrowings	0.00	55.00	37.05	8.68	0.00
<u>Total non-current liabilities</u>	0.51	55.51	37.56	9.19	0.51
<u>Total liabilities</u>	0.79	55.79	37.84	9.47	0.79
<u>Net Assets</u>	31.02	72.29	130.53	201.46	252.81
Contributed Equity	67.71	82.71	86.79	86.79	86.79
Accumulated losses	-36.69	-10.42	43.74	114.67	166.02
<u>Total Equity</u>	31.02	72.29	130.53	201.46	252.81



Appendix:

Project location overview



Source: Centrex Limited AGM presentation, 2021, slide 5.

Ardmore Rock Phosphate Project

Mineral Resource Category	Million Tonne	P ₂ O ₅ %
Measured	3.3	29.8
Indicated	11.1	27.4
Inferred	1.7	26.8
Total Mineral Resources	16.2	27.8
Ore Reserve Category	Million Tonne	P ₂ O ₅ %
Probable	7.3	30.2
Proven	2.8	30.3
Total Ore Reserves	10.1	30.2

Source: Centrex website, centrexlimited.com.au

Oxley Potassium Project

Table: Oxley Inferred Resource at varying cut-off grades.

Cut-Off GradeK2O%	Mt	K ₂ O%
6	154.7	8.3
7	134.0	8.5
8	83.0	9.1
9	37.9	10.0
10	14.8	10.8
11	4.2	11.6

Source: March 2016 Announcement

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