

Aiming for a low-risk path to rare earths production

RareX Ltd (ASX:REE) is a Perth-based exploration and project development company focused on developing its flagship asset, the Cummins Range Rare Earth and Phosphate Project. The project, located in the East Kimberley region of WA, is the largest undeveloped rare earth elements (REE) project in the country and is being advanced towards production. Recent progress includes an infrastructure-sharing agreement with the owners of the mineral loading facility at Wyndham port, and offtake MOU, and continuous favourable metallurgical results. The company recently completed an enhanced scoping study which outlined a low-front-end capital expenditure (capex) and staged capital deployment schedule over three stages to deliver a significantly de-risked, monetised pre-strip step for the first three years before the second and third stages lead into an 18-year mine-life. The enhanced scoping study defined a post-tax NPV_{8%} of \$333m to deliver a post-tax internal rate of return (IRR) of 27%. Stage 1 contemplates capex of \$45m to develop a DSO phosphate project as the cash-generating springboard for a longer-term, high-value, staged rare earths operation. Stage 2 funding is estimated at \$304m while stage 3's capex estimate is \$63m in year 15. RareX, through its exploration and project acquisition arm, RareXploration, also holds a portfolio of rare earth exploration tenements and strategic investments in three companies: Kincora Copper (ASX:KCC) – 5mn shares, Cosmos Exploration (ASX:C1X) – 10mn shares, and Canadian Rare Earth Corp. (TSX-V:LL) – 25mn shares), which have a combined current market value of ~\$2.2m.

Project description

The Cummins Range Project lies ~500km south of the established Wyndham Port in northern WA and ~50km from a paved highway mineral corridor to the port. It is also surrounded by good infrastructure which will allow for bulk operations, future processing, and a local workforce that will help reduce start-up costs. The project currently is in the pre-feasibility stage after having released a highly economic scoping study this year. The scoping study released in August, was based on a JORC resource of 519.3Mt at 4.6% P₂O₅, 0.32% TREO for a total of 1.6Mt of TREO and 24Mt of contained P₂O₅. This positions the project as the largest among its Australian peers. The scoping study estimates a post-tax IRR of 27% based on NPV_{8%} of \$333mn (post-tax) and incorporates three stages with the first stage aimed at monetising the phosphate-rich overburden as a DSO fertiliser before moving into the delivery of phosphate and rare earth concentrates for both EV magnet and lithium-ferro-phosphate battery applications over an 18-year mine-life. Total capex for the project is \$349m (Stage 1 and 2 – within the first five years), with the first stage at \$45m. Estimated EBITDA over the life of the project is \$1.5bn, using US\$250/t 32% P₂O₅ and US\$100/kg NdPr oxide as input prices into the disclosed, discounted pricing formula.

Project progressing with several milestones ahead

The company has been rapidly progressing the project with the November 9 signing of a Memorandum of Understanding (MoU) with the world's largest fertiliser distributor Nitron Group, covering the offtake of 250Ktpa of pre-strip DSO phosphate (Stage 1) and 250Ktpa of phosphate concentrate (Stage 2). REE also announced (November 8) the signing of an infrastructure-sharing term sheet with KMG Logistics for the use of the bulk loading facility of Wyndham Port. The company has laid out an indicative timetable for the remainder of FY24 and FY25 (November 14 investor presentation) which presents a roadmap for a number of catalysts including for Stage 1: finalised plant trials, binding offtake, mining contractor selection, finalised supply chain contracts, DFS study, pre-strip environment submissions; and for Stage 2: product samples and derivatives, mineral concentrate offtake MOUs, PFS study. REE envisages it will be seeking funding for Stage 1 in H2 FY25 with construction commencing in FY26.

Trading at a discount to peers on a market cap/project NPV basis

We view REE's relevant peers as Australian Strategic Materials (ASX:ASM), Arafura Rare Earths (ASX:ARU), and Hastings Technology Metals (ASX:HSU), all of which have more advanced (albeit, arguably, more complex) rare earth projects in play. We have looked at this group from a post-tax NPV_{8%} basis and found that REE is currently trading at 0.06x NPV_{8%} (post-tax), compared with its peer group which trade at an average of 0.15x post-tax NPV_{8%}. We would expect to see this discount narrow as REE passes more milestones in the delivery of its project.

23 November 2023

Share Details

ASX code	REE
Share price (22-Nov)	\$0.03
Market capitalisation	\$20.5M
Shares on issue	683.8M
Net cash at 30-Sept-23	\$2.3M
Free float	~78.6%

Share Performance (12 months)



Upside Case

- Strong tailwinds for critical minerals projects
- Faster development time cements a favourable market position
- Better-than-expected test work results

Downside Case

- Slower than expected approvals
- Project financing risk
- Cost overruns

Catalysts

- Binding offtake agreements
- Stage-1 Definitive Feasibility Study
- A funding solution for Stage 1

Comparable Companies (Aust/NZ)

ASM, ARU, HAS

Board and Management

Jeremy Robinson	Chairman
James Durrant	CEO
Danny Goeman	Non-Executive Director
Shaun Hardcastle	Non-Executive Director
Cameron Henry	Non-Executive Director
John Young	Non-Executive Director
Guy Moulang	Head of Geology
Kay Hofmann	Study & Approvals Manager

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