

Marvel Gold (MVL AU, \$0.047, market cap A\$24.4m)

Spin out of Chilalo should deliver significant value to MVL shareholders

Investment view

- MVL has 100% ownership of the high quality Chilalo coarse flake graphite project in Tanzania which it is now proposing to separate into a separately listed company, Evolution Energy Minerals.
- As we've discussed in earlier notes, this makes sense now that Marvel has successfully 'morphed' into a West African gold explorer and now has the best part of a million ounces under the belt at its Tabakorole project in Mali.
- The value to Marvel could be in the range of 1.5 to 2.3c/share at the listing of Evolution. Should the new graphite company achieve a market valuation in line with its peer group (eg Triton, Volt, Blackrock, Walkabout) this could conservatively increase to 3.2 to 6.3c per MVL share. So effectively MVL shareholders will be getting the gold assets in the company for free.

Transaction summary

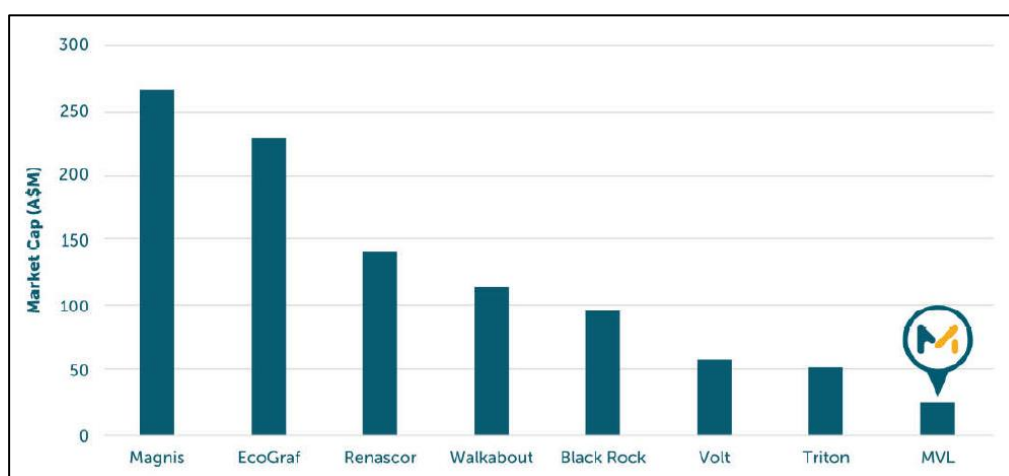
- Following the expenditure of over \$20m on Chilalo's exploration and feasibility studies, the project is shovel-ready and is awaiting finance. Chilalo's high grade resource is 20.1mt at 9.9% total graphitic carbon (TGC).
- The proposed transaction is to raise a minimum of A\$13m with the potential for oversubscriptions.
- The company will be headed by Trevor Benson (as Executive Chairman). Mr Benson was previously Executive Chairman of graphite developer, Walkabout Resources. MVL's CEO, Phil Hoskins, will take up a non-executive position on the board. Both are very experienced executives in the graphite space. Also on the board, in an executive capacity, is Michael Bourguignon, who has vast experience building mining projects in Africa. He was project manager for the Syrah graphite project in Mozambique.
- A prospectus is likely to be complete in June, with an ASX listing in July.
- MVL state that the minimum raise will be A\$13m, with MVL shareholders able to subscribe up to \$2m.
- MVL has presented an indicative capital structure for Evolution in its recent release based on three scenarios, raising \$13m, \$16m and \$20m. This is summarised in Appendix 1. Should \$13m be raised, only part of the debt to lenders Castl lake would be extinguished by cash. The balance would see Castl lake become 13% shareholders in Evolution. Should the larger amounts be raised (and in the current market this seems likely), the Castl lake debt would be fully extinguished with cash.
- At a \$16m raise, cash remaining after debt repayment and costs would be around \$5m, sufficient to refresh Chilalo's DFS and seek financing for the project. At a \$20m raise the cash balance (after debt repayment and costs) would be around \$10m.
- Under the current proposal MVL will wind up as a 28 to 43% shareholder in Evolution. There are no plans to distribute the shares to MVL holders, but this is a likely outcome, in our view.

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What could Evolution Energy Minerals be worth?

- The graphite sector has dramatically rerated over the course of 2021 with what seems to be a view the graphite supply chain – heavily dependent on Chinese supply – is at risk with a new generation of ESG requirements from end users.
- The likes of EcoGraf (ASX: EGR) has moved from under 20c to over \$1 earlier in the year, but has since pulled back to around 50c. Its market capitalisation is still over \$200m. It's far from clear what has driven this attention, other than the market's view that EGR is proposing a mine (Epanko located in Tanzania) similar to Marvel at 60ktpa and a processing facility in WA to manufacture uncoated spherical graphite for the lithium battery industry employing proprietary technology.
- Black Rock Mining (ASX: BKT), another strong performer recently, has attracted the market's attention with Korean industrial giant Posco taking a \$7.5m equity investment in the company. Posco has also signed a strategic agreement to facilitate the development of the Mahenge graphite project, located in Tanzania. No suggestion that BKT will move into downstream processing of its graphite; rather it's targeting industrial uses of graphite (as Marvel's Chilalo) and feedstock into the battery anode business. Blackrock's market capitalisation is around \$100m
- Both Epanko and Mahenge are similar to Marvel's Chilalo project, and are at similar stage of pre-development, with both awaiting financing subject to a final resolution of the renewed Tanzanian Mining Act.
- As demonstrated in the chart below, MVL in its current form has nothing in the price for the value of the graphite assets. We see no reason why the spin-out could not trade in line with the likes of Triton, Volt or Walkabout. All are East African predevelopment graphite plays (although Volt has recently purchased Ukrainian graphite production). Each are capitalised at around \$50-70m.
- In Appendix 1, below, we endeavour to estimate what this could be worth to MVL. For this example, lets conservatively assume a raise of \$16m at an assumed minimum valuation for Chilalo in the hands of MVL (a very modest \$8m project value plus the debt of \$9.5m, or a pre money value of \$17.5m). Should Evolution rerate to a market cap of \$50m, this would be worth some 3.2c/share to MVL. At a \$100m market cap, this would be worth 6.3c to MVL a 34% premium to the current share price, and excluding any value for the gold assets.
- Taking a more bullish view for the future of Evolution, assuming a \$20m raise and incorporating a pre-money EV of \$21.5m, the impact could be in the range 3.6 to 7.1c per Marvel share.

Market cap comparatives of Marvel against its graphite peers



Source: MVL release 11 May 2021. Share prices as at 7 May 2021.

Note that the market capitalisation of Walkabout has recently dropped significantly, in response to what we understand to be issues with project financing. Its market capitalisation at 13 May was \$68m

Marvel Gold Capital Structure and Board

MVL Capital structure		
Issued capital*	m	528
Options**	m	32.1
Share price	\$	0.047
Market capitalisation	\$m	24.8
Cash (as at Dec 20)	\$m	5.1
Enterprise value	\$m	19.7
Board		
Stephen Dennis, Non-executive Chairman		
Phil Hoskins, Managing Director		
Chris van Wijk, Executive director		
Andrew Pardey, Non-executive Director		
* Assumes issue of another 20m shares to OKU (see text)		
** Average exercise price of 5.7c		

Note that 20m shares remain to be issued to Oklo Resources in connection with the transaction to acquire an 80% interest in Oklo's South Mali tenements. These have been included in the share count.

Appendix 1

Indicative capital structure of Evolution Energy Minerals and post raise valuation to MVL

		\$13M raising		\$16M raising		\$20M raising	
		Min valuation	Max valuation	Min valuation	Max valuation	Min valuation	Max valuation
Marvel	m	40.0	60.0	40.0	60.0	40.0	60.0
Castlelake	m	15.0	15.0	0.0	0.0	0.0	0.0
IPO investors	m	65.0	65.0	80.0	80.0	100.0	100.0
Issued Capital	m	120.0	140.0	120.0	140.0	140.0	160.0
Assumed issue price	\$	0.20	0.20	0.20	0.20	0.20	0.20
Market capitalisation (@\$0.20)	\$m	24.0	28.0	24.0	28.0	28.0	32.0
Cash raised	\$m	13.0	13.0	16.0	16.0	20.0	20.0
Repayment to Castlelake		6.5	6.5	9.5	9.5	9.5	9.5
Cash remaining (before costs)	\$m	6.5	6.5	6.5	6.5	10.5	10.5
Enterprise value	\$m	17.5	21.5	17.5	21.5	17.5	21.5
Value to Marvel (@\$0.20)	\$m	8.0	12.0	8.0	12.0	8.0	12.0
Value (cents per Marvel share)	c	1.5	2.3	1.5	2.3	1.5	2.3
Valuation to Marvel assuming company revaluation to \$50m	c	3.2	4.1	3.2	4.1	2.7	3.6
Valuation to Marvel assuming company revaluation to \$100m	c	6.3	8.1	6.3	8.1	5.4	7.1

Appendix 2

Summary of Chilalo Graphite Project

- MVL (then as GPX) released its definitive feasibility study (DFS) for the coarse flake Chilalo graphite project in Tanzania in January 2020.
- The economics of the project are attractive and are summarised as follows:
 - A single stage development, producing 50ktpa graphite concentrate.
 - Capex of US\$87.4m.
 - 18 year mine life.
 - A graphite basket price estimated at US\$1,534/t (FOB).
 - A move downstream with the production of expandable and micronized graphite products. This has the opportunity of enhancing the overall basket price to US\$2500/t and expanding EBITDA margins from 49% (concentrate alone) to 63% (the partly integrated solution).
- Chilalo's NPV was reported at US\$331m (post tax, 8% discount rate). Of the total project NPV, some 36% can be attributed to the mine/processing and sale of concentrate, around 64% to the incremental value obtained from the production and sales of expanded and micronized graphite. The project's IRR was estimated at 36%.
- It should be noted that MVL received its Mining Licence in February 2017 and had already received its environmental approvals and so its tenure position has never been in question. The go-ahead for Chilalo was almost entirely dependent on the company securing finance. Private equity, once highly supportive of the project, chose not to proceed with financing support, due to the impact of COVID19 on its own business. Alternative sources of finance were sought, but were unable to be obtained at the time. The company is also awaiting details of the proposed Tanzanian Government Free Carried Interest agreement.
- Note that MVL has some A\$9.5m owing to the previous project financier, to be repaid from the proceeds of the Chilalo spin out.

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