NeuRizer

A lot to look forward to

Share Price: $0.080

ASX: NRZ
Sector: Materials
11 April 2023

NeuRizer (ASX: NRZ) is well placed as 2023 progresses. In the last 12 months, it has secured a new major investor and offtake partner in DL E&C Co, completed a company rebranding and has obtained several necessary clearances from and other beneficial arrangements with the South Australian government.

NRUP set to meet a substantial need

NRZ's NeuRizer Urea Project (NRUP), which it expects can commence operations in 2025, can go a significant way towards meeting Australia's annual demand for urea. At present, Australia imports its fertiliser from overseas (Incitec's Gibson Island plant having closed at the end of 2022) and has endured significant difficulty in obtaining supply of urea fertiliser since early 2022, given global supply chain constraints. We think these challenges demonstrate Australia needs locally produced urea fertiliser, and we believe NRZ can go a significant way towards meeting this need. The company ultimately aspires NRUP to have capacity to produce up to 2Mtpa, matching Australia's annual demand. Even in the initial years, when capacity will only be 1Mtpa, it will still play a significant part in meeting Australia's urea fertiliser needs.

A big year ahead

Even though NRUP is not expected to come online until 2025, the company has some important milestones that it is set to achieve in CY23 that will place it in good stead to enter production. In the year ahead, the milestones we expect include the Final Bankable Feasibility Study (BFS), the Final Investment Decision (FID) and Stage 2 of project development. We also would not be surprised to see further offtake deals and potentially even further investors into the company and its project.

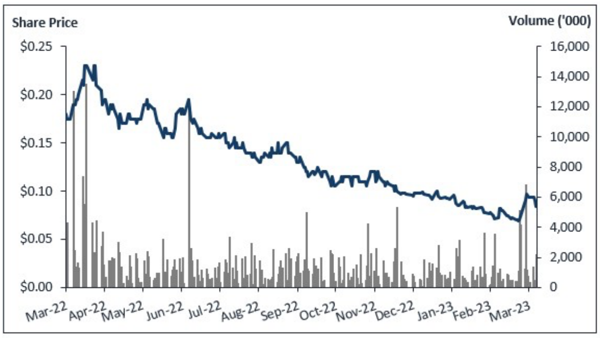
Valuation range of A$0.37-A$0.60 per share

In our initiation report dated 15 September 2022, we valued NeuRizer at A$0.37 per share base case and $0.60 per share optimistic case using the DCF approach. In this report, we reiterate our valuation and believe there is significant potential to re-rate as the company hits its projected milestones in the year ahead. Please see page 6 for our key assumptions. Key risks include competition, urea prices and funding availability.

Market Cap. (A$ m)	84.2
# Shares outstanding (m)	1,052.0
# Share fully diluted (m)	1,052.0
Market Cap Full. Dil. (A$m)	84.2
Free Float	67.6%
12-months high/low (A$)	0.24/0.069
Avg. daily volume ('1000)	1,460.9
Website	www.neurizer.com.au

Source: Company, Pitt Street Research

Share price (A$) and avg. daily volume (k, r.h.s.)



Source: Thomson Reuters, Pitt Street Research

Valuation metrics	
DCF fair valuation range (A$)	$0.37-$0.60
WACC	8.53%
Assumed terminal growth rate	0.5%

Source: Pitt Street Research

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A big year for NRZ

2022 was a year of significant progress for NRZ that has set itself up well for the future.

2022 was a year of significant progress for NRZ that has set itself up well for the future. Highlights include:

- **Strengthened its relationship with DL E&C Co. (Daelim)** to the point where it has become an offtake partner for up to 500kt of urea annually and a large shareholder (with a 9% stake) in the company
- **Obtained several necessary clearances from the South Australian government** including the Petroleum Production License, a Petroleum Storage License, an exclusivity period to complete negotiations on the train line from Leigh Creek to Port Augusta, an infrastructure agreement for the facilities at the site, a Section 23 approval under the Aboriginal Heritage Act and Major Project Status.
- **A company rebranding** from its previous name Leigh Creek Energy, in a move that better reflects the company's vision and business.

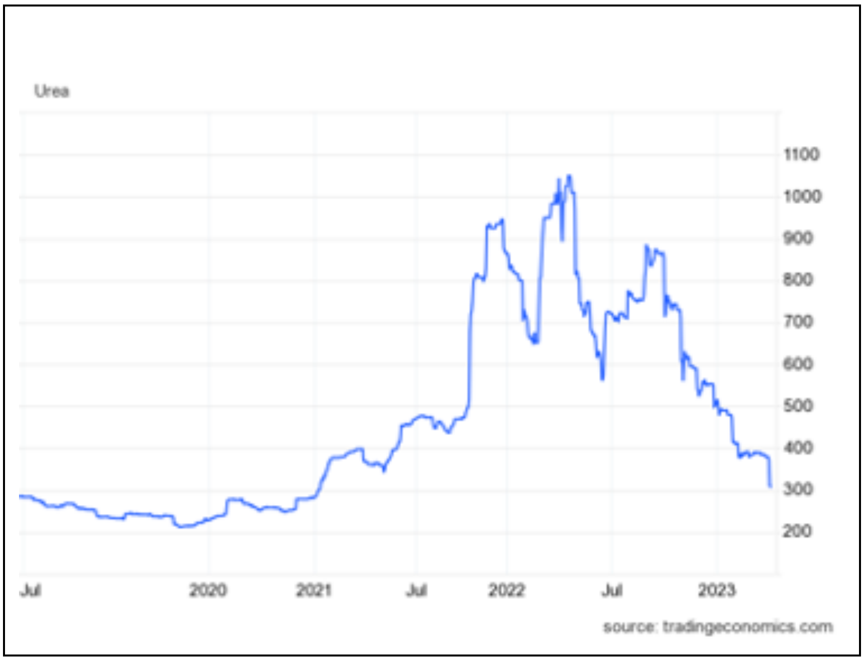
Industry challenges raise awareness

Supply chain issues have raised awareness of the need to have local fertilizer production, including urea.

In the broader industry, supply chain issues have raised awareness of the need to have local fertiliser production, including urea. At present, Australia imports 95% of its urea requirements (approx.. 2Mtpa) from China and other Asian producers. Macro-economic uncertainties have increased the price of urea and its inputs to regional levels.

Yet, global production growth and rising GDP levels means that the need for food crop production will only grow larger in the years to come, requiring new supply to come onto the market. We observe that urea prices have risen substantially since the pandemic. Even though prices have fallen from their all time highs, they are still substantially above levels which NRZ's PFS was completed at (Figure 1).

Figure 1: Urea futures are coming down, but prices are still above PFS levels



Source: Trading Economics

When the time is right, all systems go

From 2025, NRUP will have capacity to produce 1Mtpa of urea, making up 50% of Australia's annual demand. This would easily make NRUP the leading and quite possibly the only sovereign supplier in the domestic market. In the longer-term, capacity could double to 2mtpa and meet 100% of Australia's demand. The project will be well suited to do so, being strategically located to access domestic markets as well as low cost – lying in the lowest quartile of the global industry's cost curve at just A$109 per tonne.

NRZ's PFS has depicted that the project could potentially earn an NPV of A$3.3bn at an IRR of 30% over the course of its commercial life. Its design also enables it to be carbon-neutral from the start of operations and for its estimated 30+ years duration.

There will be no shortage of demand for NRZ's urea, as evidenced by Daelim's investment into the company and offtake heads of agreement, secured at such a preliminary stage of the project's development.

Key events to look forward to in 2023

Bankable Feasibility Study (BFS)

This will be a significant step towards securing full finance for NRUP. The company already completed an initial BFS in Q1 of 2022, but it was not permitted to release it in accordance with regulatory requirements. However, the results of the initial BFS must have been positive enough for the company to complete the final BFS.

Front-end Engineering Design (FEED)

The company commenced this step last year in conjunction with DL E&C. The economic outcomes of this process will be a major input to the BFS and will also ensure NRUP achieves zero carbon operations from its first operations.

Funding & FID

Once the final BFS has been released, we expect funding to be secured followed by a Final Investment Decision (FID).

Once the final BFS has been released, we expect funding to be secured followed by a Final Investment Decision (FID). As evidenced by companies such as Sheffield Resources (ASX: SFX) and Liontown Resources (ASX: LTR), the FID is a significant milestone for an ASX resources and energy company and can lead to a share price spike. We expect it to be similar in respect of NRZ. We believe that Daelim relationship can deliver the financing packaging that can allow the project to get off the drawing board.

Offtake deals

The company already secured a binding offtake agreement with Daelim for 500,000 tonnes of urea per year. We would not be surprised to see further deals come once the FID has been made, given the urgent need for locally produced urea fertiliser.

Valuation of A$0.37-$0.60 per share

We reiterate our valuation of NRZ at A$0.37 base case and A$0.60 bull case

In our initiation report, we outlined a valuation of A$0.37 per share base case and $0.60 bull case. Our model was based on the assumption that NRUP would enter production in FY25, ramping up over time. We utilised pricing assumptions from CRU Group, made available to us by the company, as well as the same operating cost assumptions used in the November 2020 Feasibility Study. We reiterate our valuation.

Re-rating NRZ

We believe NRZ is undervalued at its current market capitalisation and may see a re-rating based on the following factors:

1) A supply shortage in the market which has driven up price of urea
2) Completing the BFS and confirming the attractive project economics
3) Securing full project financing
4) Making the FID and moving ahead with Stage 2 construction towards commercialization

Risks

– **Global price of urea**: The sales of Urea producers is determined by two factors: volume of sales and the price in the market. The global price of urea is determined by demand and supply factors and can be highly volatile, as witnessed since 2021. The ban on exports by China and sanctions on Russia have pushed prices to record-levels, which bodes well for producers. In the coming years, if there is excess supply in the market, then the price of urea would fall which would consequently lower producers' sales.

– **Competition:** In addition to NeuRizer, two other companies, Perdaman Chemicals and Strike Energy, are developing urea production projects in Australia to fill the supply-side gap in the market. The shortage of supply in the Australian market will attract new domestic players and established foreign players to enter the market which could make it difficult for NeuRizer to capture a large share. But, the company's low production cost could help it in good stead.

– **Funding risk.** A critical factor for the success of the company is the completion of project financing in a timely manner. We have assumed that the company will commence production and secure funding on schedule. However, if there are delays due to funding challenges, this will affect cash flows and viability of the project.

Appendix I – Analyst certification

Stuart Roberts, lead analyst on this report, has been an equities analyst since 2002.

- Stuart obtained a Master of Applied Finance and Investment from the Securities Institute of Australia in 2002. Previously, from the Securities Institute of Australia, he obtained a Certificate of Financial Markets (1994) and a Graduate Diploma in Finance and Investment (1999).
- Stuart joined Southern Cross Equities as an equities analyst in April 2001. From February 2002 to July 2013, his research speciality at Southern Cross Equities and its acquirer, Bell Potter Securities, was Healthcare and Biotechnology. During this time, he covered a variety of established healthcare companies, such as CSL, Cochlear and Resmed, as well as numerous emerging companies. Stuart was a Healthcare and Biotechnology analyst at Baillieu Holst from October 2013 to January 2015.
- After 15 months over 2015–2016 doing Investor Relations for two ASX-listed cancer drug developers, Stuart founded NDF Research in May 2016 to provide issuer-sponsored equity research on ASX-listed Life Sciences companies.
- In July 2016, with Marc Kennis, Stuart co-founded Pitt Street Research Pty Ltd, which provides issuer-sponsored research on ASX-listed companies across the entire market, including Life Sciences companies.
- Since 2018, Stuart has led Pitt Street Research's Resources Sector franchise, spearheading research on both mining and energy companies.

Nick Sundich is an equities research analyst at Pitt Street Research.

- Nick obtained a Bachelor of Commerce/Bachelor of Arts from the University of Sydney in 2018. He has also completed the CFA Investment Foundations program.
- He joined Pitt Street Research in January 2022. Previously he worked for over three years as a financial journalist at Stockhead.
- While at university, he worked for a handful of corporate advisory firms.

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