

Ticker: RBW LN
Market cap: £84m

Net cash: £8.5m
Price: £0.165/sh

Project: Phalaborwa
Country: South Africa

RECOMMENDATION (unc): BUY

TARGET: £0.35/sh (unc)

RISK RATING: HIGH

Today's announcement confirming Rainbow's 70% stake in Phalaborwa secures attractive economics for Rainbow and matches our modelled scenario. Moreover, we think it is a win-win transaction for both sides: Bosveld (the vendor) gets a 30% free carry into an attractive project, while Rainbow secures attractive economics with SCPe ~US\$70m FCF per year and >2-year payback period at US\$80/kg NdPr (well below current spot prices). We believe Phalaborwa is a unique rare earths project, with high grades (3.0Moz at 2.3g/t AuEq at US\$80/kg NdPr) in already acid treated tailing stacks at surface, located on rail, power and road, with sulphuric acid source in the same town. Moreover, it is synergistic with Rainbow's management and operations team, many of whom spent years together building processing plants at MDM Engineering, including the 28Mtpa Stilfontein gold tailings and uranium retreatment plant in South Africa. **We maintain our BUY rating and 35p/sh price target based on 0.5x NAV_{8%-80/kg}.** Stepping back, we believe that Rainbow the best risk adjusted return profile of any NdPr developer due to location, infrastructure in place, the already treated nature of the mineralization, and Rainbow's experienced plant-building management team.

Rainbow confirms 70% Phalaborwa project ownership

Rainbow Rare Earths announced it has amended the Phalaborwa Rare Earths development agreement with vendor Bosveld Phosphates to confirm 70% project ownership for Rainbow. The Agreement previously included a mechanism for Rainbow's project ownership to vary from 60-85% depending on the outcome of a PFS on the project.

Why we like Rainbow Rare Earths

1. Tailings project located on existing industrial facility results in low capex and opex
2. High per tonne value due to NdPr, Dy, Tb assemblage and ability to produce beneficiated product
3. Proven management team that has built numerous mines and tailings projects

Catalysts

- 1Q22: PEA
- 2H22: DFS, pilot plant and end of year financial investment decision
- 2023: Construction
- 2024: SCPe ramp up, commercial production in 2025

Research

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Ticker: RBW LN	Price / mkt cap: £0.17/sh, £84m	Market P/NAV: 0.12x	Assets: Phalaborwa
Analyst: J Chan / B Gaspar	Rec / PT: BUY / £0.35	1xNAV₂₀₂₀ FD: US\$0.98/sh	Country: South Africa

Group-level SOTP valuation		4Q21	1Q22e			Resource / Reserve		Mt	% TREO	000t REO	000t NdPr	EV/t	NdPr
		US\$m	O/ship	NAVx	£/sh								
Phalaborwa NPV 1Q22e		545	80%	0.50x	0.71	Measured, ind. & inf.		38	0.43%	165	48	1,140	
Central SG&A & fin costs 1Q22e		(123)	-	0.50x	(0.12)	SCPe Mine Inventory		38	0.43%	163	48	1,153	
Tonnes outside mine plan (5% insitu value)		2	100%	0.50x	0.00								
Cash and restr. cash 4Q21		11	-	0.50x	0.01								
Cash from options		1	-	0.50x	0.00								
Debt 4Q21		(1)	-	0.50x	(0.00)								
Gakara		75		0.50x	0.07								

1xNAV8% spot fully diluted, pre-funded	510	0.67
Assumed equity raised to first production	60	0.07
1xNAV8% spot fully funded	570	0.35

1x fully funded NAVPS sensitivity to gold price and discount / NAV multiple					
Valuation (£/sh)	\$60/kg	\$70/kg	\$80/kg	\$90/kg	\$100/kg
0.25xNAV	0.13	0.16	0.19	0.22	0.25
0.50xNAV	0.24	0.30	0.37	0.43	0.49
0.75xNAV	0.34	0.44	0.54	0.63	0.74
1.00xNAV	0.45	0.58	0.71	0.85	0.98
Phalaborwa NPV8% (US\$m)	\$60/kg	\$70/kg	\$80/kg	\$90/kg	\$100/kg
12% discount	254	312	369	427	485
10% discount	308	375	441	508	575
8% discount	375	453	531	609	687
6% discount	459	552	644	737	829
5% discount	510	611	712	813	914

Phalaborwa 1xNAV sensitivity to recovery and payability					
Phalaborwa NPV8% (US\$m)	Recov: 65.0%	70.0%	75.0%	80.0%	85.0%
Payability: 60%	171	211	250	289	329
Payability: 70%	256	302	348	394	440
Payability: 80%	342	394	447	499	552
Payability: 90%	427	486	545	604	663
Payability: 100%	512	578	644	709	775

Valuation over time	Jun '21	Jun '22	Jun '23	Jun '24	Jun '25
Mines NPV (US\$m)	519.7	565.6	671.7	766.9	738.4
Cntrl G&A & fin costs (US\$m)	(128.2)	(118.5)	(125.2)	(104.3)	(69.4)
Gakara & other	77.1	77.1	77.1	77.1	77.1
Net cash at 1Q (A\$m)	7.9	9.2	3.5	(60.8)	(21.7)
1xNAV (US\$m)	476	533	627	679	724
P/NAV (x):	0.18x	0.16x	0.14x	0.13x	0.12x
1xNAV share px FD (US\$/sh)	0.91	1.02	1.20	1.30	1.39
ROI to equity holder (% pa)	452%	149%	94%	67%	53%

Sources and uses of cash			
SCPe evaluation costs	US\$10m	SCPe current cash + options	US\$12m
SCPe capex	US\$100m	Debt package	US\$80m
SCPe contingency	US\$16m	Equity Raised	US\$60m
SCPe G&A + fin. cost to first Au	US\$13m		
SCPe working capital	US\$9m		
Total uses	US\$148m	Total proceeds	US\$152m

*Cash from options expiring pre first pour

Production profile		Balance sheet					
Production (kt REO)	Rev / Cost (US\$/t)	Jun '22	Jun '23	Jun '24	Jun '25	Jun '26	
2024	2025	2026	2027	2028	2029	2030	2031
2032	2033	2034	2035				
Production (kt Nd+Pr, LHS)	Production (kt, Dy+Tb, LHS)	Production (kt, other REO, LHS)					
Revenue (\$/t REO)	AISC (US\$/t REO)						
Phalaborwa (kt TREO)	968	5,321	7,095	7,095	7,095		
Phalaborwa (kt Nd+Pr)	281	1,548	2,064	2,064	2,064		
Phalaborwa cash cost (US\$/t)	11,886	7,752	7,752	7,752	7,752		
Phalaborwa AISC (US\$/t)	15,317	10,852	10,619	10,619	10,619		
Group cash cost (US\$/t)	12,466	8,332	8,332	8,332	8,332		
Group AISC (US\$/t)	16,461	9,506	9,135	9,135	9,135		

Production (100%)		Jun '24	Jun '25	Jun '26	Jun '27	Jun '28
Phalaborwa (kt TREO)		968	5,321	7,095	7,095	7,095
Phalaborwa (kt Nd+Pr)		281	1,548	2,064	2,064	2,064
Phalaborwa cash cost (US\$/t)		11,886	7,752	7,752	7,752	7,752
Phalaborwa AISC (US\$/t)		15,317	10,852	10,619	10,619	10,619
Group cash cost (US\$/t)		12,466	8,332	8,332	8,332	8,332
Group AISC (US\$/t)		16,461	9,506	9,135	9,135	9,135

Source: SCP estimates

Resource / Reserve	Mt	% TREO	000t REO	000t NdPr	EV/t	NdPr
Measured, ind. & inf.	38	0.43%	165	48	1,140	
SCPe Mine Inventory	38	0.43%	163	48	1,153	

Commodity price	Jun '22	Jun '23	Jun '24	Jun '25	Jun '26
NdPr price (US\$/t)	83	83	80	80	80

Share data	
Basic shares (m): 511.8	FD + options (m): 523.0
	FD/FF 809.7

Ratio analysis	Jun '22	Jun '23	Jun '24	Jun '25	Jun '26
FD shares out (m)	577	777	777	777	777
EPS (US\$/sh)	(0.00)	(0.00)	(0.00)	0.07	0.09
CFPS before w/c (US\$/sh)	(0.00)	0.00	(0.02)	0.05	0.11
CFPS pre growth (US\$/sh)	(0.00)	0.03	0.00	0.05	0.11
FCF/sh (US\$/sh)	(0.02)	(0.07)	(0.08)	0.05	0.11
FCF yield pre growth (US\$/sh)	(2%)	18%	3%	31%	67%
FCF yield (%)	(10%)	(43%)	(50%)	31%	67%
EBITDA margin (%)	-	-	43%	69%	69%
FCF margin (%)	--	--	(229%)	25%	42%
ROA (%)	(7%)	(3%)	(1%)	25%	26%
ROE (%)	(7%)	(5%)	(3%)	43%	35%
ROCE (%)	(7%)	(2%)	7%	52%	58%
PER (x)	(42x)	(31x)	(56x)	2x	2x
P/CF (x)	(48x)	(36x)	(126x)	2x	2x
EV/EBITDA (x)	(43x)	(62x)	16x	1x	0x

Income statement	Jun '22	Jun '23	Jun '24	Jun '25	Jun '26
Revenue (US\$m)	--	--	28	154	206
COGS (US\$m)	--	--	(12)	(44)	(59)
Gross profit (US\$m)	--	--	16	110	147
Expenses (US\$m)	(3)	(4)	(2)	(2)	(2)
Impairment & other (US\$m)	--	--	--	--	--
Net finance costs (US\$m)	--	(2)	(8)	(8)	(8)
Tax (US\$m)	--	--	(5)	(38)	(37)
Minority interest (US\$m)	--	--	--	--	(20)
Net income attr. (US\$m)	(3)	(6)	1	62	79
EBITDA (US\$m)	(2)	(2)	12	106	143

Cash flow	Jun '22	Jun '23	Jun '24	Jun '25	Jun '26
Profit/(loss) after tax (US\$m)	(2)	(4)	(2)	53	68
Add non-cash items (US\$m)	--	--	1	7	9
Less wkg cap / other (US\$m)	--	4	(12)	(18)	11
Cash flow ops (US\$m)	(2)	0	(13)	42	89
PP&E (US\$m)	(5)	(56)	(51)	(3)	(3)
Other (US\$m)	--	--	--	--	--
Cash flow inv. (US\$m)	(7)	(56)	(51)	(3)	(3)
Debt draw (repayment) (US\$m)	--	40	40	--	(15)
Equity issuance (US\$m)	11	50	--	--	--
Other (US\$m)	--	--	--	--	--
Cash flow fin. (US\$m)	11	90	40	--	(15)
Net change post forex (US\$m)	1	34	(24)	39	71
FCF (US\$m)	(9)	(56)	(64)	39	86

Balance sheet	Jun '22	Jun '23	Jun '24	Jun '25	Jun '26
Cash (US\$m)	11	45	21	60	131
Accounts receivable (US\$m)	1	2	5	13	14
Inventories (US\$m)	0	3	6	18	6
PPE & exploration (US\$m)	18	74	124	120	114
Other (US\$m)	0	0	0	0	0
Total assets (US\$m)	30	124	156	211	264
Debt (US\$m)	2	42	82	82	67
Other liabilities (US\$m)	1	9	2	5	5
Shareholders equity (US\$m)	53	103	103	103	103
Retained earnings (US\$m)	(24)	(28)	(30)	23	91
Minority int. & other (US\$m)	(1)	(1)	(1)	(1)	(1)
Liabilities+equity (US\$m)	30	124	156	211	264
Net cash (US\$m)	9	4	(61)	(22)	64
Net debt to NTM EBITDA (x)	4.6x	(0.3x)	0.6x	0.2x	(0.5x)

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SELL:	0
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TENDER:	1
NOT RATED:	0
TOTAL	51

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