

RAINBOW RARE EARTHS LIMITED

ON TRACK FOR FIRST SHIPMENT IN Q4

PRELIMINARY ANNUAL RESULTS RELEASED

Rainbow Rare Earths has released its preliminary results for the 12 months ending 30 June 2017. As the Company is in pre-production the financials are largely academic, however the news release highlighted the progress made at the Gakara rare earth elements ("REE") project in Burundi, East Africa.

APPROACHING FIRST CONCENTRATE SALE

The Company is on track to meet its target of first production of mineral concentrate before calendar year end. The work at Gakara has been progressing rapidly since the IPO in January, with a focus on site preparation, waste stripping and commencement in plant construction. Mining of first ROM ore commenced in September and the civil works at the Kabezi plant site, approximately 20km from the Gakara area, are well advanced with most of the plant equipment currently on site. Construction and commissioning is expected to commence soon in time to meet the first production target.

REE PRICES STRENGTHENING

As we have mentioned in our previous Rainbow Rare Earths note, after years of decline the REE market has been strong in 2017. This has been driven by China eliminating much of its illegal REE production (estimated at 30-35% of Chinese total REE output in 2016) as well as increasing global demand for electric vehicles. Consequently, Rainbow's basket price as of 2 October 2017 is up 70% since the start of the year.

STRONG BALANCE SHEET

Rainbow is well placed for first production with zero debt and a June year end cash balance of US\$3.2m. According to our model the remaining start-up capital cost commitments at Gakara amount to US\$1.75m. With first production and concentrate sales before the calendar year end, the company is in a strong financial position as it transitions from a development to production.

UPDATING OUR VALUATION

We have updated our DCF valuation for Gakara based on the recently updated production guidance and REE price strength. We increase our 2018 production forecast concentrate to 3,500 tonnes of ROM ore up from 2,350 tonnes and also increase our Rainbow REE basket price forecast for 2018 to \$3,400/t, \$4,000/t for 2019, \$4,050/t for 2020 and \$5,500/t for our long-term forecast. We arrive at a target price of GBp 15.0 per share, indicating 38% upside from the current share price.

NEAR-TERM PRODUCTION REE EXPOSURE

As momentum in REE prices remains positive into 2017 and beyond, Rainbow Rare Earths remains the only publicly listed fully funded developer fully funded into near-term REE production. In this sector REE projects usually require substantial (typically US\$200m+) construction capital.

GICS sector	Materials
Ticker	LSE:RBW
Rating	
Target price (12 month)	GBp 15.00
Price (as of 3 October 2017)	GBp 10.92
Market capitalisation	US\$22.3mm



Forecasts, valuation metrics and assumptions

		2017	2018E	2019E	2020E
Current forecast					
EBITDA	\$m	(1.4)	1.9	3.7	5.4
Net profit	\$m	(1.4)	1.7	4.6	7.2
Production					
REE concentrate	t	-	2,615	3,735	4,482
Price assumption					
FOB price REE	\$/t	-	3,400	4,000	4,500
Multiples					
EV/EBITDA	x	NM	38.7x	23.2x	10.9x

Source: Hannam & Partners Research

Note: All figures are as of the financial year-end

Andrei Kroupnik

+44-207-907-8500

andrei.kroupnik@hannamandpartners.com

Hannam & Partners (Advisory) LLP

2 Park Street

Mayfair

London W1K 2HX

FINANCIAL SUMMARY
Share price GBP 10.92
Market Cap \$m 22.3

Share price GBP 10.83 **\$/E** 0.75
Market Cap £m 16.7

Fiscal year ended Jun 30, £m unless noted
Income statement

Year end June		2017	2018E	2019E	2020E	2021E
Revenue	\$m	-	3.5	5.9	8.0	11.4
COGS	\$m	-	2.2	2.8	3.2	3.7
Gross Profit	\$m	-	1.3	3.1	4.8	7.7
Depreciation	\$m	-	0.4	0.5	0.4	0.4
Admin expense	\$m	(1.3)	0.6	0.6	0.6	0.6
Net interest expense	\$m	0.0	(0.1)	(0.1)	(0.2)	(0.4)
Pre-tax profit	\$m	(1.4)	2.3	6.0	9.2	14.8
Tax credit/(paid)	\$m	-	-	(0.4)	(1.1)	(3.2)
Net profit	\$m	(1.4)	2.3	5.6	8.1	11.6
EBITDA		(1.4)	1.9	3.7	5.4	8.3

Ratios and other data

Year end June		2017	2018E	2019E	2020E	2021E
Yr end shares in issued	m	154.6	154.6	154.6	154.6	154.6
Revenue growth	%	-	-	68.1%	35.0%	42.6%
EBITDA growth	%	-	-	-	-	54.1%
EBITDA margin	%	-	-	-	67.7%	73.2%
Pre-tax ROIC	%	-	-	42.4%	37.3%	36.8%
ROE	%	-	-	48.2%	46.6%	45.2%
Free cash flow	\$m	-	-	4.8	7.4	10.5
EV/EBITDA	x	NM	37.6x	20.3x	5.3x	NM
EV/Sales	x	NM	4.1x	1.6x	0.3x	NM
EV		13.7	14.4	9.7	2.3	(8.3)
Market Cap (Yr end)	\$m	16.9	16.9	16.9	16.9	16.9

Metal price assumptions

Year end June		2017	2018E	2019E	2020E	2021E
FOB price REE	\$/t	-	3,400	4,000	4,500	5,500

Production volumes

Year end June		2017	2018E	2019E	2020E	2021E
REE concentrate	tonnes	-	2,615	3,735	4,482	5,229

Cash Costs

Year end June		2017	2018E	2019E	2020E	2021E
Cost per tonne ore milled	\$/t	-	702.8	626.5	592.2	583.3
Cost per tonne concentrate	\$/t	-	940.8	838.7	792.7	780.9

Cash flow statement

Year end June		2017	2018E	2019E	2020E	2021E
Operating profit	\$m	(1.4)	2.3	5.6	8.1	11.6
Interest expense	\$m	(0.0)	-	-	-	-
Depreciation	\$m	-	0.4	0.5	0.4	0.4
Working capital change	\$m	0.0	(1.7)	(1.0)	(0.9)	(1.4)
CFO	\$m	(0.9)	1.0	5.1	7.7	10.6
Purchase of PPE	\$m	(1.4)	(1.8)	(0.3)	(0.3)	(0.1)
CFI	\$m	(2.1)	(1.8)	(0.3)	(0.3)	(0.1)
Net Borrowings	\$m	(1.5)	-	-	-	-
New equity issued	\$m	7.9	-	-	-	-
CFF	\$m	6.0	-	-	-	-
Net change in cash	\$m	3.0	(0.7)	4.8	7.4	10.5
Beginning Cash	\$m	0.1	3.2	2.5	7.2	14.6
Ending Cash	\$m	3.2	2.5	7.2	14.6	25.1

Balance sheet

Year end June		2017	2018E	2019E	2020E	2021E
Cash	\$m	3.2	2.5	7.2	14.6	25.1
Receivables	\$m	0.2	1.4	2.4	3.3	4.7
Inventory	\$m	-	0.6	0.8	0.9	1.0
Current Assets	\$m	3.4	4.5	10.4	18.8	30.8
PPE	\$m	5.8	7.2	7.0	6.9	6.6
Other	\$m	-	-	-	-	-
Fixed Assets	\$m	5.8	7.2	7.0	6.9	6.6
Payables	\$m	0.4	0.6	0.8	0.9	1.0
Short Term Debt	\$m	0.0	0.0	0.0	0.0	0.0
Current Liabilities	\$m	0.4	0.6	0.8	0.9	1.0
Long term debt	\$m	-	-	-	-	-
Non Current Liabilities	\$m	-	-	-	-	-
Total Equity	\$m	9.2	11.7	17.4	25.7	37.4

Estimated Net Asset Value (NAV)/Share

	\$m	£m	p/sh
Gakara	27.8	21.5	13.89
Total NPV (12%)	27.8	21.5	13.89
Working Capital	3.8	3.0	1.91
G&A	(1.6)	(1.2)	(0.80)
Total	30.1	23.2	15.00

Current P/NAV 0.73x

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