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Barry FitzGerald: Cassini is worth much more than its share price suggests

The much-anticipated release last week of a pre-feasibility study into a $995m development of the remote Nebo-Babel nickel-copper project in Western Australia was meant to send the shares of **Cassini Resources (ASX:CZI)** into orbit.

It didn't happen, not yet anyway.

Cassini is the 30 per cent junior partner in the proposed development, a joint venture with **OZ Minerals (ASX:OZL)** (70 per cent), and its shares had trotted higher to 11c in anticipation of the PFS. But since the PFS release last Wednesday, it has drifted back to 9.2c.

That has been despite the PFS confirming a robust 26-year mine life (up from 10 years previously) for the proposed project, with bottom quartile nickel cash costs of operation of $US1.30/lb ($1.94/lb) (after copper credits).

Nebo-Babel is a project for the times as the world needs new (first-world) supplies of sulphide nickel (and copper) as the lithium-ion battery powered electric vehicle and battery storage of renewable energy revolution gathers pace.

There are questions about how OZ fits the development into its already crowded development pipeline, and questions around the joint venture's ability to secure third party support for a $275m power solution at the remote site not included in the near $1bn capital cost.

There was also some alarm from analysts that the exchange rate in the PFS was unrealistically low at US67c, and that the metal prices used of $US7.60/lb for nickel and $US2.91/lb for copper could be seen as a stretch when compared with much lower spot prices.

While there is merit in all that, Nebo-Babel clearly stands as the type of long-lived and first-quartile cost producer the world's battery makers are banking on to become a long-term supplier of the type of nickel sulphide material they need.

Some of that emerged last year when one of China's biggest producers of electrolytes for lithium-ion batteries, Tinci, took up a 6 per cent placement of shares in Cassini.

Today's interest though is in what the PFS tells us about the value of Cassini's 30 per cent interest in Nebo-Babel compared with the company's current market cap of $39m.

The PFS estimated a net present value for the project of $800m and an internal rate of return of about 20 per cent post-tax. Maybe so, but the issues around metal prices and exchange rates meant the analysts were pencilling in something lower.

A research note from Macquarie on the PFS reflected the broader market response. Macquarie does not yet include Nebo-Babel in its base valuation of OZ but said that if it did, it could add $303m or 90c an OZ share.

On that basis, Cassini's 30 per cent stake has an implied value of at least $130m, remembering the company is carried by OZ until the release of a bankable feasibility, and loan carried for a time afterwards. Cassini also has a full exploration portfolio beyond the West Musgraves location of Nebo-Babel.

So even a hard-nosed assessment of the PFS suggests the value to Cassini of its 30 per cent stake in Nebo-Babel is a multiple of its current market cap.

It all makes for an interesting couple of years ahead for Cassini, with there being the possibility it gets a bid for its stake as development gets closer. Macquarie reckons a decision to mine in late (calendar) 2021 is on the cards.

So action around what is one of the few near-term exposures to new long-term supplies of nickel and copper – the metals needed for the EV and renewable power revolutions – is not far off.

Failing that, Cassini will need to be priced more appropriately for its metal exposure from a Nebo-Babel development.

On Macquarie figures, Cassini is in line for a 30 per cent share of cumulative free cash flow of $4.6bn over the life of the mine. It has forecast a capital payback of less than six years from the decision to mine, and four years from first production.