

SUVO STRATEGIC MINERALS

(ASX: SUV)

Equity Research Report by Canary Capital

13th February 2024



Aerial image of the SUV's Pittong Plant

Suvo Strategic Materials Capital Structure

Ordinary Shares on Issue	809,704,467
Shares in Escrow	4,391,958
Total Shares	814,096,425
Current Share Price	3.1 cents
Market Capitalisation	\$27.8m
Total Options*	45,500,000
Total Performance Shares	40,494,999
Diluted Shares Outstanding	900,091,424

*Excludes 15m in Broker options

Top 5 Shareholders

Aaron Peter Banks	9.09%
Christopher James Weed & Janet Elizabeth Brockman	6.09%
Melbourne Securities Corp	3.09%
Robert Kingsley Fitzgerald	2.13%
Ratdog Pty Ltd	1.98%

The top 20 shareholder held 36.79% of the share in the company

Board of Directors

Mr Aaron Banks – Non-Executive Chairman

Dr Agu Kantsler – Non-Executive Director

Mr Oliver Barnes – Non-Executive Director

Key Achievements To Date

- Secured a market share of 90% within the Australian hydrous kaolin market.
- Built a strong pipeline of potential customers across Asia with numerous opportunities on the verge of converting to sales orders.
- Licensed IP for a geopolymer concrete formulation, “Collicrete”, poised to revolutionise the billion dollar concrete industry, with commercialisation expected within 1-2 years.

DCF Valuation of \$0.119 per share

Introduction

Suvo Strategic Minerals (ASX: SUV) is the leading kaolin producer in Australia, strategically positioned to leverage significant growth prospects overseas and expand its presence in the global kaolin market currently valued at USD 4.6 billion per annum.

Through the strategic acquisition of Imerys’ Australian kaolin assets for \$3m, SUV purchased the Pittong kaolin mine and processing plant, which is the only hydrous kaolin processing facility in the country. SUV now commands an 90% share of the Australian kaolin market and has achieved a short payback period of less than 5 quarters for the purchase.

With its operations centered around the extensive Pittong kaolin mine, containing over 5.7 million tonnes of high-quality kaolin resources, SUV produces premium kaolin catering to long-standing clients across industries including paper, paint, and pharmaceuticals. These clients include large brands like Dulux Group, Visy, and Norske Skog Boyer. Beyond Australia, SUV has embarked on an expansion strategy targeting the USD 1.1 billion Asian kaolin market. With a robust pipeline of potential customers testing products and poised to convert to sales, SUV is well positioned to replicate its success in Australia across Asia.

Further complementing its kaolin business, SUV is pioneering the development of Collicrete, an innovative low carbon geopolymer concrete alternative to traditional concrete that reduces carbon emissions by 50-70%. With large scale commercialisation expected within the next 1-2 years, SUV is at the forefront of disrupting the USD 386 billion cement and concrete industry.

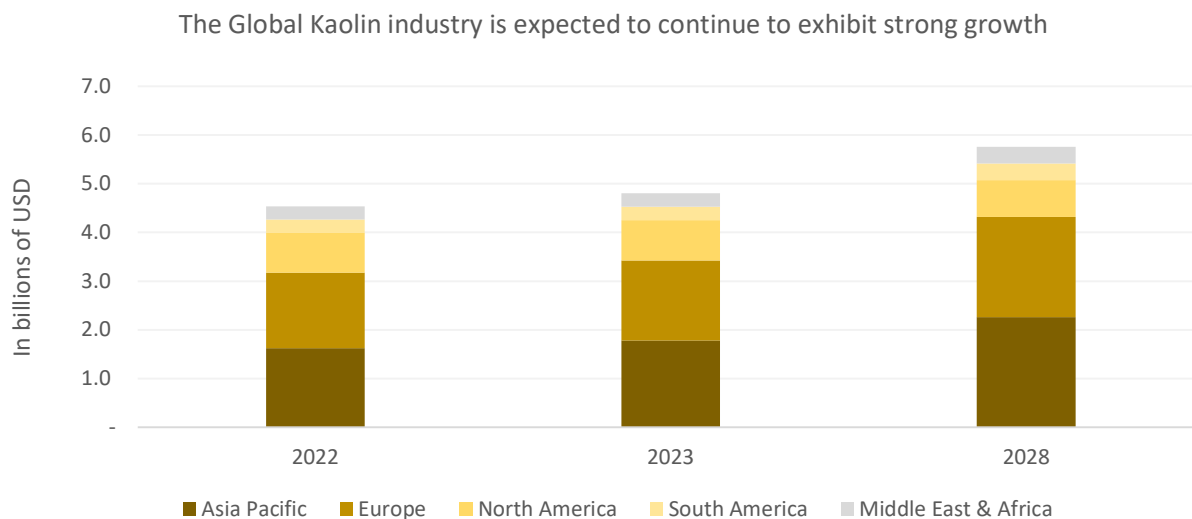
In line with expectations for higher customer demand and consequently increased production volumes, SUV is forecasted to generate revenue of \$35m in FY28 at an industry-leading free cash flow margin of 23%. Our DCF valuation resulted in an intrinsic value per share of \$0.119 implying potential upside of ~285%.

Despite its dominant industry positioning and immense growth prospects, SUV remains overlooked by the market. With rising production volumes, high barriers to entry, an experienced management team, and diversified growth drivers, SUV offers a compelling investment case to investors.

MARKET OVERVIEW

Introduction to Kaolin. Kaolin, also known as kaolinite, is a soft, white clay mineral extensively used in various industrial applications due to its desirable properties, including chemical inertness, absorbency, and non-swelling capabilities. Different forms of kaolin cater to various industrial uses, including paper production, ceramics, construction, rubber, paints, and coatings. The major kaolin deposits are found in Northern Brazil and Georgia, USA. In Georgia, the kaolin deposits occur in Late Cretaceous to Early Paleogene sedimentary rocks, with the state being recognized as a world leader in the production, processing, and application of kaolin products.

Kaolin Market Size. The global kaolin market was valued at USD 4.6 billion in 2022 and is projected to reach USD 6.1 billion by 2028, growing at a CAGR of 4.8% during the forecast period¹. Growth in the global kaolin market is expected to be primarily underpinned by growth in the Asia Pacific kaolin market which is expected to grow from USD 1.12 billion in 2022 to USD 1.68 billion in 2030².



Emerging Trends in the Kaolin Industry. Emerging markets in Asia-Pacific and Africa are expected to witness robust growth due to rapid industrialisation and infrastructure development, presenting significant growth opportunities for the kaolin market. Additionally, continued research and innovation in kaolin processing and applications open up new opportunities, including the development of specialised kaolin products for niche markets and novel applications such as increased use in the cosmetic industry.

¹ [Kaolin Market Report](#)

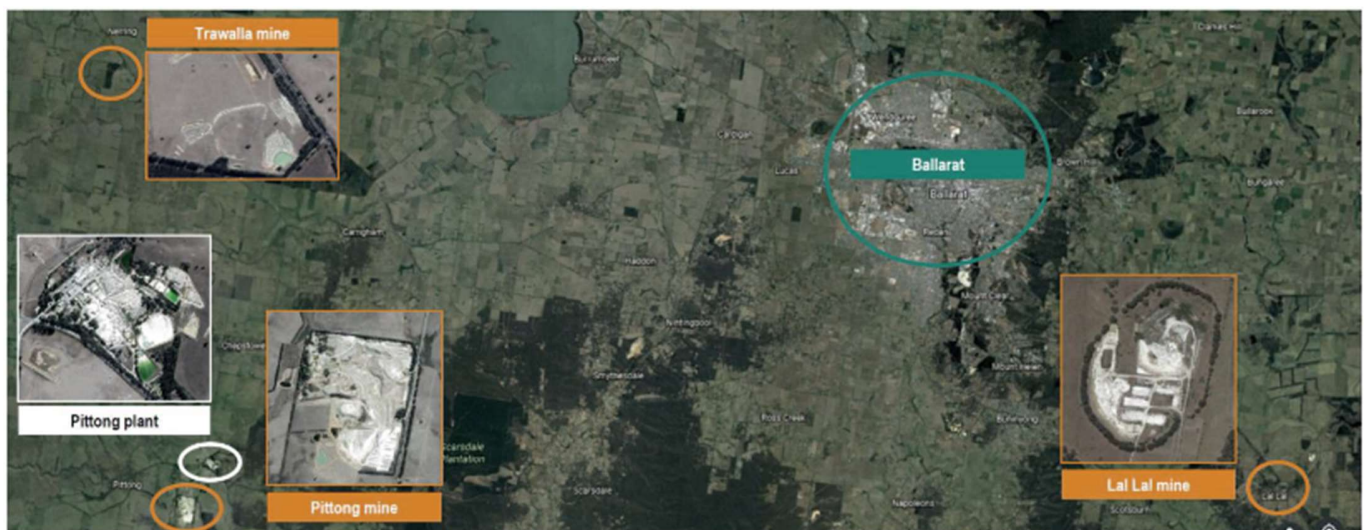
² [Kaolin Market Size, Share & COVID-19 Impact Analysis, By Application, and Regional Forecast](#)

PITTONG OPERATIONS

Overview

The 100% owned Pittong Operations, located in Victoria 40km west of Ballarat, is the only wet kaolin mine and processing plant in Australia and has been in operation since 1972. Pittong comprises the Pittong, Trawalla and Lal Lal deposits located on approved Mining Licenses MIN5408, MIN5365 and MIN5409 respectively.

A map view of the Pittong operations



Source: Suvo Strategic Minerals

Acquisition from Imerys

On 31 December 2020, SUV completed the acquisition of the Australian kaolin mining operations of Imerys, a French multinational, for a total cash consideration of \$3m. These operations consisted of the Pittong processing plant and mine assets which included the Pittong mine, Lal Lal mine, and the Trawalla mine. Along with the acquisition of the processing plant and the mine deposits, SUV acquired Imerys' client list made up of domestic and international customers. All operational personnel, suppliers and contractors were also retained, meaning operations would be running as usual from day one of the acquisition. Imerys placed the plant on sale following its decision to divest its Kaolin operations in Australia due to limited synergies with other Imerys businesses and the relative insignificance of Pittong's scale compared to Imerys' other operations in America.

The attractiveness of the acquisition was underscored by the Pittong operations' strong financial performance, with an EBITDA of \$2.1 million on revenues of \$13 million in 2019. This compelling value proposition was further validated post-acquisition, as the Pittong operations generated a total EBITDA of \$3.6 million in 6 quarters, boasting an impressive payback period of less than 5 quarters. Notably, the estimated replacement cost of the Pittong plant alone falls within the range of \$50 million to \$100 million, emphasizing the exceptional value reflected by the acquisition price.

MINE ASSETS

Pittong Mine. The Pittong mine (MIN5408) is 100% owned by SUV and is located only 2km from the Pittong plant. The Pittong mine accounts for most of the crude kaolin (~90%) fed into the Pittong plant. Given the mine's proximity to the plant, the haulage costs incurred in transporting the crude kaolin for processing are minimal. The shallowness of the deposit also contributes to lower mining costs, estimated at \$9 per tonne of ore extracted.



From left to right:

Paul Hart, Canary Capital Director, Bojan Bogunovic, SUV CEO, and Stuart Craigie, Canary Capital Associate Director, during a recent site visit to the Pittong mine

Lal Lal Mine. The Lal Lal kaolin deposit (MIN5409) is 100% owned by SUV and is located only 25km from Ballarat, Victoria and 60km from the Pittong plant. Lal Lal is used to supplement Pittong with a higher brightness ore for specialist applications such as pharmaceuticals and cosmetics.

Below are the mineral resource estimates for the Pittong and Lal Lal mines, combined, showing a significant Kaolin resource estimate of 2Mt. SUV management has stated that this resource is more than sufficient to support production volume growth at the Pittong plant for the next 25+ years. The mineral resource estimate was completed by CSA Global Pty Ltd (CSA) on behalf of Suvo and was announced on 1 March 2022.

	White Kaolinised Granite (Mt)	ISO Brightness % (457nm)	Yield (<45um) %	Kaolin (Mt)
Indicated	3.7	81.3	35.5	1.3
Inferred	2.0	79.1	33.0	0.7
Total	5.7	80.5	34.6	2.0

Trawalla Deposit. The Trawalla deposit (MIN5365) is 100% owned by SUV and is located 24km from the Pittong processing plant. Trawalla is a greenfield deposit and has not yet been mined by SUV. Below is the Trawalla deposit mineral resource also estimated by CSA and announced on 22 September 2021.

	White Kaolinised Granite (Mt)	ISO Brightness % (457nm)	Yield (<45um) %	Kaolin (Mt)
Indicated	9.9	81.0	27.7	2.8
Inferred	2.8	79.8	28.3	0.8
Total	12.7	80.8	27.8	3.6

PITTONG PLANT

Overview. Built in 1972, the Pittong plant of a range of kaolin products for the paper, paper & board and specialty minerals markets. The plant has a current production capacity of 60,000 tonnes of Kaolin per annum.

Investment in Upgrades and Capacity Expansion. At acquisition, the plant had a throughput capacity of up to 20,000 to 25,000 tonnes per annum (tpa). However, following a capital investment of \$2.3m on upgrades made to the plant between FY22 and FY23, the plant's capacity was increased to a validated 60,000 tonnes per annum. Upgrades included the refurbishment of the filter press decks, hydrocyclones and other automated equipment.

Mining Operations. Currently, the crude kaolin ore supplied to the Pittong plant for processing is sourced from the Pittong mine and the Lal Lal mine. SUV utilises a local mining contractor to handle the kaolin mining operations and haulage of the kaolin ore to the plant. The crude kaolin transported to the plant is stored on a ROM pad where it is tested at the laboratory to determine its grade.

Processing. The plant takes its feedstock from the ROM pad and feeds it into a trommel mill where it separates the coarse sand from the kaolin. After the kaolin is mixed with water to form a slurry, a series of hydrocyclones are then used to further separate the kaolin slurry from the remaining quartz and feldspar. The kaolin slurry is then bleached to increase its whiteness and then channelled to a holding tank where it's allowed to settle and thicken. Next, the thickened kaolin is fed into a filter press that reduces the kaolin's moisture content from 70% to 30%. These mostly solid "cakes" of kaolin are then dropped into a top paddle mixer that breaks up the cake and passes it to the pug where the kaolin is delaminated. From the pug, the kaolin is dropped into the bottom paddle mixer and then conveyed to the extruder that presses the kaolin chunks into noodle-like pellets. The kaolin pellets are then passed through a band dryer, also called the primary dryer, to reduce the moisture content to 10%. The kaolin can then be passed through a secondary dryer and/or an attritor based on the required product form.

Products Forms. To cater to the needs of its customers, SUV can produce Kaolin in various forms for final use by its customers. As a result, the plant has 4 different product lines from Line A through to Line D. In line A, following the passing of the kaolin through the primary dryer, the kaolin product is packaged in one-tonne bulk bags. In line B, also following primary drying, the kaolin is passed to a tank and mixed back into a slurry that is then screened and stored at 35% moisture content ready for delivery by tanker to customers. In line C, the kaolin is passed through a second (secondary) dryer and attritor to produce 1% moisture content kaolin powder that is stored in bulk powder silos. The powder is either packed in bulk powder containers or 25kg bags which would then be loaded onto pallets ready for dispatch to customers. In line D, the kaolin powder from the secondary drying is passed through a micron mill that further grinds the powder to produce a very fine pulverised kaolin powder with 1% moisture content. Similar to the kaolin powder from line C, this pulverised kaolin can be packaged in bulk bags or 25kg bags. The kaolin products from lines A, C and D are used in the paper, coatings, paint and specialist industries including rubber and pharmaceutical applications while products from line B are used in paper and board manufacturing.

An illustration of the Pittong plant's 4 different product production lines



Source: Suvo Strategic Minerals

Current customers

SUV boasts a large customer base of domestic and international companies. Because SUV obtained most of its client list after the acquisition of the Pittong operations, the majority of its current customers have maintained relationships with the Pittong plant for over 20 years. Being the exclusive producer of Kaolin in Australia, a considerable portion of our SUV's customer base comprises domestic clients. Among these distinguished customers are industry leaders such as Dulux Group, Visy, and Norske Skog Boyer. SUV's export clients include Dulux New Zealand, Sherwin Williams (China) and Nippon Paints (Malaysia). It's worth highlighting that the majority of SUV's international clients are located in Asia. Below is a concise summary of some key supply agreements held by SUV with its clientele.

- Norske Skog Boyer – On 12 January 2022, Norske Skog Boyer's Australian paper mill extended its supply agreement with SUV for 25,550 tonnes of hydrous kaolin across 3 years from January 2022 to December 2024, implying an annual deliverable of 8,500 tonnes.
- Chaozhou Chengcheng Industrial Co – On 14 November 2022, SUV executed an offtake agreement contract with Chaozhou Chengcheng for the supply of a minimum quantity of 4,275 tonnes over 3 years. At the time of signing, the agreement was valued at \$3.25m to \$3.5m.

Sales Pipeline and Growth Opportunities

With SUV dominating 90% of the Australian hydrous kaolin market, further expansion within the country presents limited prospects. Consequently, SUV is strategically expanding into the Asian market which boasts an annual demand of 5 million tonnes of kaolin. In line with its Asian expansion strategy, SUV has locked in new channel partners throughout the Asia Pacific including Indonesia, Philippines, China, Korea and India. Management has stated that the sales pipeline of Asian customers is strong with more than 20 potential customers product testing Pittong's hydrous kaolin and on the verge of converting to sales orders. Given the quality of SUV's products and their proven success in dominating the Australian market, we strongly believe that the company will convert the majority of its sales opportunities. This should enable the company to achieve its goal of moving production levels at Pittong close to nameplate capacity over the next 12 months.

Competitive Landscape

In Asia, alongside SUV, additional kaolin producers are operating locally in China and Indonesia. However, we believe that these local producers manufacture low-quality kaolin which lacks the market appeal of SUV's high-quality kaolin. Consequently, customers in need of high-quality kaolin for applications such as ceramics, paper, and pharmaceuticals turn to SUV as their exclusive supplier.

Although other producers of high-quality kaolin such as Imerys and Thiele Kaolin Company have kaolin plants in North America and Europe, their ability to serve customers beyond these regions is hindered by significant challenges. Foremost among these challenges is the high shipping costs that would increase the cost per tonne to uneconomical levels. Additionally, prolonged shipping durations due to distance and risks associated with geopolitical events could result in long lead times for customers.

GEOPOLYMER CONCRETE

Overview. In collaboration with Murdoch University, SUV is pioneering the development of a geopolymer concrete called "Collicrete", a groundbreaking low-carbon alternative poised to revolutionize the construction industry by replacing conventional cement-based concrete. The inception of Collicrete began with research and development focused on the versatile applications of kaolin. This exploration naturally progressed to the investigation of metakaolin and ultimately culminated in an innovative formulation of geopolymer concrete.

What is Geopolymer Concrete? Geopolymer concrete is a low-carbon concrete that is made by reacting aluminate and silicate-bearing materials with a caustic activator, such as metakaolin, fly ash, ground blast furnace slag and other waste-derived materials. Metakaolin is a material derived from the calcination process where kaolin clay is heated to high temperatures to undergo a phase transformation. Research shows that geopolymer concrete can have higher compressive strength and durability due to reduced risk of corrosion when exposed to reinforcing steel. SUV is currently testing geopolymer concrete formulations using metakaolin and fly ash.

Environmental Benefits. Globally, cement production stands out as the largest individual contributor to carbon pollution, accounting for 8% of total emissions worldwide. Presently, concrete relies on Ordinary Portland Cement (OPC) for its manufacture. Because geopolymer concrete eliminates OPC entirely, it presents a more environmentally friendly option compared to OPC-based concrete, potentially reducing greenhouse gas emissions by ~50% to 70%.

Pilot Plant. Murdoch University has built a small pilot batching plant in Collie, 200km southeast of Perth, where trials of the Collicrete have been conducted over the last 6 months. The establishment of the plant follows the signing of an exclusive Intellectual Property license agreement between SUV and Murdoch University. The purpose of the pilot plant is to produce low-carbon concrete, which eliminates the use of OPC, as an alternative building material to concrete produced with OPC. Using the Murdoch Technology, various pre-cast products have been produced, including retaining wall blocks, wall panels and aprons. Initial findings from Murdoch University suggest a remarkable reduction of approximately 50% in greenhouse gas emissions compared to traditional cement-based concrete. On the 10th of November 2023, Suvo announced that laboratory trials had successfully created a new metakaolin and fly-ash geopolymer concrete formulation, which has the potential to reduce greenhouse gas emissions by ~70% compared to OPC. Importantly, fly-ash is a waste derived product, so this formulation has the potential to significantly reduce the per unit cost of production.

Applications of Collicrete. SUV is exploring Collicrete's initial applications in various forms such as retaining wall blocks, noise reduction panels, and pavers. These early applications expedite the exploration of Collicrete's potential, as they primarily involve non-structural building materials. Consequently, their assessment can be completed within a shorter timeframe compared to structural materials. In the long term, SUV aims to validate and commercialise the use of Collicrete as a binder in the construction process, replacing cement entirely.

Road to Commercialisation. On 16 January 2024, SUV announced that it had been invited by the Sustainability Waste Alliance (SWA) to demonstrate its Collicrete. A demonstration pour will be performed on a section of the Bunbury Outer Ring Road project which is considered the largest road infrastructure project in the history of the South-West of Western Australia. If successful, the demonstration pour may present the opportunity to use Collicrete on other government infrastructure projects.

On 5 February 2024, SUV announced the execution of a non-binding MOU with PERMAcast, Western Australia's leading supplier of precast and prestressed concrete products. The MOU aims to establish the foundation for negotiating a strategic partnership. This partnership would utilize SUV's licensed geopolymer intellectual property to create a range of low-carbon concrete formulations for deployment by PERMAcast in specific end-use applications.

The SWA demonstration and the PERMAcast MOU exemplify the robust demand for a green alternative to OPC, which is likely to accelerate its commercialization. Consequently, SUV management anticipates scaling up the commercialization of the Geopolymer concrete opportunity within the next 1-2 years.

A Massive Untapped Growth Opportunity. The global cement and concrete industry was estimated to be worth USD 386 billion in 2023³. With the ongoing global transition towards low-emission building materials, the demand for geopolymer concrete is anticipated to be high, taking market share from the existing cement and concrete market. With SUV at the forefront of developing and commercialising geopolymer concrete, we expect the company to be well-positioned to capitalise on this significant new opportunity.

Collicrete Business Model. Rather than producing the Collicrete in-house, SUV plans to license Collicrete and other formulations developed and generate royalties for each tonne produced.

OTHER TENEMENTS

Gabbin Kaolin Project

The 100% owned Gabbin Kaolin Project (White Cloud) is located 215km northeast of Perth, Western Australia. The project area comprises four granted exploration licences (E70/5039, E70/5332, E70/5333, E70/5517) totalling 413km², centred around the town and rail siding of Gabbin. A mining access agreement is in place over the current resource area with the landowner and occupier. The weathering profile of the rock at Gabbin is very deep and contains thick kaolin horizons capped by mottled clays or laterite zones. The Gabbin project's current JORC 2012 Mineral Resources are 72.5Mt of bright white kaolinised granite with an ISO Brightness of 80.5%. The table shows a more detailed description of the Gabbin Kaolin project's mineral resource estimate.

³ [Cement and Concrete Products Global Market Report 2024](#)

	White Kaolinised Granite (Mt)	ISO Brightness % (457nm)	Yield (<45um) %	Kaolin (Mt)
Indicated	26.9	80.4	41.3	11.1
Inferred	45.6	80.6	41.1	18.8
Total	72.5	80.5	41.2	29.9

Eneabba Silica Sands Project

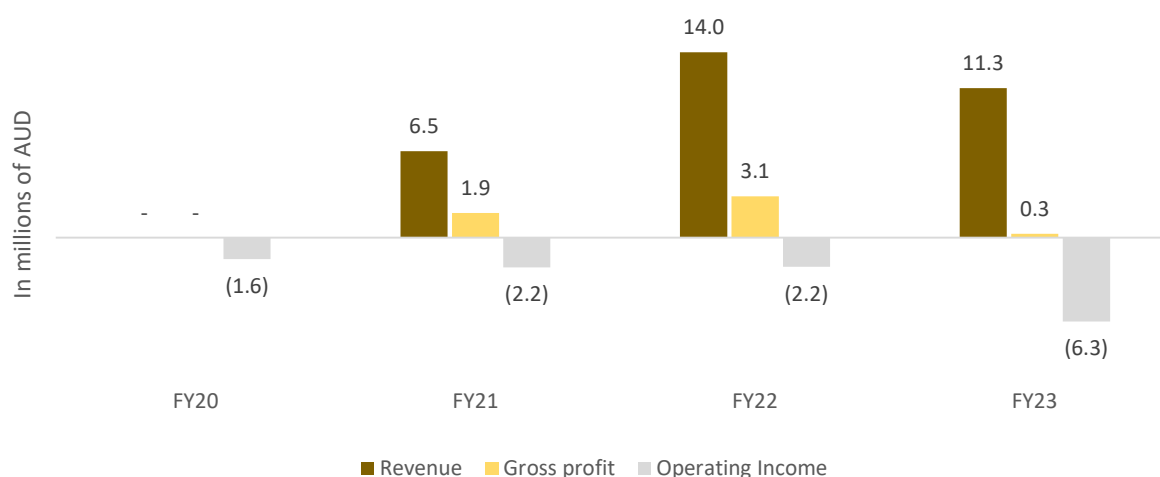
The 100% owned Eneabba Silica Sands Project is located 300km north of Perth, Western Australia. The project comprises four granted exploration licences (E70/5001, E70/5322, E70/5323, E70/5324) totalling 169km². The project sits upon the Eneabba Plain, where the sandy terrain is mostly smooth. SUV has stated that the Eneabba Project is currently at a scoping study level. Additionally, further drilling is required to extend and increase the resource estimate of 216Mt.

FINANCIALS

Financial Performance

In FY23, SUV's revenue was \$11.26 million, a moderate decrease from the previous year's \$13.96 million. This decline was primarily attributed to the expiration of SUV's non-compete contract with Imerys at the beginning of FY23, leading to Imerys securing and servicing some of SUV's international clientele. Nevertheless, SUV is optimistic that the loss in overseas demand during FY23 will be offset by new export orders which are currently in the pipeline. Therefore, the company is anticipating a reversal in revenue growth trends during FY24. In FY23, gross margins also declined, decreasing from 22% in FY22 to 3% in FY23. This was primarily attributed to decreased capacity utilization at the Pittong plant, which adversely affected the unit economics of Kaolin production per tonne. SUV generated an operating loss of -\$6.3m (-56% margin) in FY23, up from -\$2.2m (-16%) in FY22. However, this increase in operating loss was largely attributable to one-off share-based payments to discontinued key management personnel.

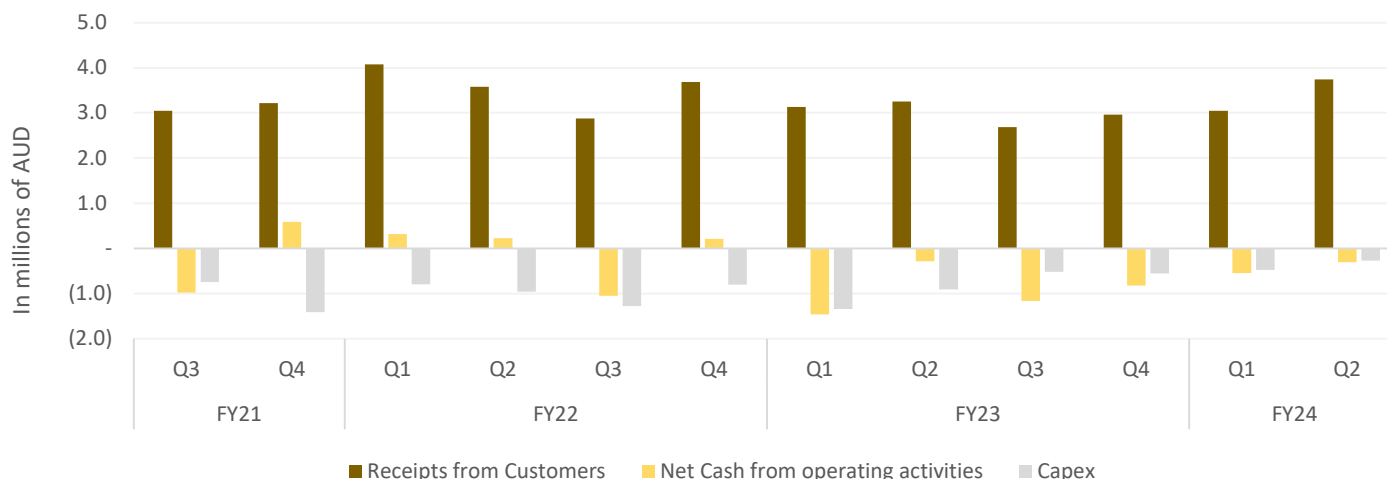
SUV's revenue has ramped up rapidly over the past 3 years



Cash Flows

In Q2 FY24, SUV generated cash receipts of \$3.7m against cash payments of \$4m resulting in net cash from operating activities of -\$307k. During the quarter, SUV spent -\$267k on capital expenditure, primarily on improvements to the Pittong plant and overburden stripping to allow for mining activities at the Pittong mine.

SUV's has experienced an increasing cash receipts and narrowing net operating cash losses



Financial position

As at 31st December 2023, SUV had ~\$1.78m in cash and cash equivalents and a quarterly cash burn of \$307k. This implies an operational runway of ~6 quarters excluding the impact of ongoing and future capital raises. SUV also has a total debt position of \$2.67m consisting of \$1.67m in interest-bearing liabilities and debt funding of \$1m secured on 30 November 2023 from Tember Nominees Pty Ltd. We believe that the current cash reserves of SUV, coupled with the proceeds from ~\$4.5m capital raise in February 2024, will provide the necessary working capital to support its planned increase in production to fulfil a growing order book.

Equity Capital Structure

SUV has ~814 million ordinary shares outstanding. The company also holds a total of 45.5 million unlisted options and ~40.5 million performance rights. On a fully diluted basis, SUV would have ~900 million shares outstanding.

Type of Equity Interest	Number of Securities
Ordinary shares on issue	814,096,425
Options – Expiring 1 December 2025 @ \$0.06	2,000,000
Options – Expiring 6 December 2025 @ \$0.10	12,500,000
Options – Expiring 6 December 2025 @ \$0.075	1,000,000
Options – Expiring 16 March 2026 @ \$0.08	5,000,000
Options – Expiring 16 March 2026 @ \$0.12	7,500,000
Options – Expiring 16 March 2026 @ \$0.16	12,500,000
Options – Expiring 26 June 2026 @ \$0.06	5,000,000
Performance Rights	40,494,999
Diluted shares outstanding	900,091,424

VALUATION

Overview

To derive a Discounted Cash Flow (DCF) Valuation for SUV, a 5-year (FY24 - FY28) financial projection model was prepared by Canary Capital. We are confident that the forecast period provides sufficient time for SUV to maximize its utilization of the Pittong plant and realize various economies of scale throughout the business. Canary Capital developed forecasts for various key line items essential for determining SUV's intrinsic value including sales revenue, cost of sales, operating expenses, capital expenditures, and investments in non-cash working capital.

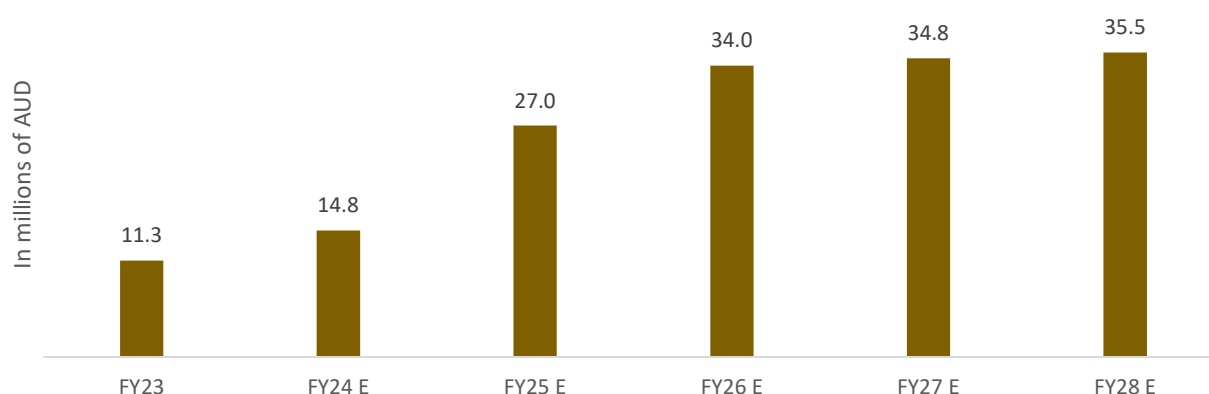
Sales Revenue

To calculate SUV's sales revenue, the annual production of kaolin in tonnes and the weighted average selling price per tonne were estimated. In line with our anticipation for SUV to convert a substantial proportion of its sales pipeline opportunities, annual production is projected to increase to 25,000 tonnes in FY24, to 45,000 tonnes in FY25, and to 55,000 tonnes in FY26. The modelling maintains a consistent level of production for the remainder of the forecast period. At 55,000 tpa, SUV would be utilising 92% of the Pittong plant's 60,000 tpa nameplate capacity.

In FY24, we expect SUV's weighted average selling price to be \$590 per tonne, which is in line with the weighted average selling price achieved in Q2, FY2024. Throughout the forecast period, we anticipate a gradual rise in the weighted average selling price. This projection is based on contractual terms in SUV's sales agreements with customers stipulating periodic increases tied to changes in the Consumer Price Index (CPI). Throughout the forecast period, we expect CPI increases to average ~2.3%. We also anticipate an increase in the weighted average selling price driven by demand for higher quality Kaolin for applications such as the production of pharmaceuticals and plasterboard, which commands a higher price point. These factors are anticipated to drive the price to \$600 in FY25, \$618 in FY26, \$633 in FY27, and \$646 in FY28.

As a result, SUV's sales revenue is expected to reach \$14.7m in FY24, up 31% from \$11.3m in FY23. In FY28, SUV is expected to generate \$35.5m in sales revenue representing a cumulative annual growth rate of 26% during the forecast period.

Revenue is set to grow rapidly with increased selling prices and production volume



Gross Profit

To calculate the gross profit, we projected the average cost of sales per tonne for SUV's kaolin products, encompassing direct expenses and freight costs. Direct costs of sales primarily comprise kaolin mining expenses, haulage, and consumables used in production, including electricity, gas, water, and packaging. We anticipate that SUV will achieve greater economies of scale on its direct costs as tonnes produced per annum grow. While we anticipate a decrease in direct costs of sales per tonne over time, we expect freight costs per tonne to remain steady.

In Q2 FY24 the total cost of sales per tonne was \$552. For the full year, we project FY24's cost of sales per tonne will be \$545. As the company achieves economies of scale due to increased production levels, we anticipate cost of sales per tonne will drop to \$375 per tonne in FY25, followed by a further decline to \$325 during FY26. After this, we expect cost of sales to stabilize for the remainder of the forecast period.

In terms of financial projections, we anticipate FY24's gross profit to reach \$1.1 million, resulting in a gross margin of 7.6%. However, by FY28, as economies of scale are fully realised, we expect SUV's gross margin to rise significantly to 44.7%.

Operating Expenses

As SUV scales and realises operating leverage from its fixed cost base, we expect operating expenses as a percentage of revenue to decline from 58.6% in FY23 to 13.9% in FY28. This decline will be primarily driven by the projected rise in capacity utilization at the Pittong plant, leading to increased production volumes without a proportional increase in operating costs, particularly in areas such as employee expenses and administrative overheads.

Operating Income and Net Operating Profit After Tax (NOPAT)

To derive operating income, operating expenses were deducted from gross profit. Based on Canary Capital's modelling, SUV is expected to hit operating break-even sometime during FY25. As sales and plant utilisation grows, SUV's FY28 operating income is expected to reach \$10.9m implying an operating margin of 31%. After taking into account 25% tax payable on operating income, we expect SUV to generate \$8.2m in NOPAT by FY28.

Free Cash Flow (FCF)

To calculate FCF, NOPAT is adjusted for net capital expenditures, inventory investments and changes in other non-cash working capital items. It's crucial to highlight that, in the foreseeable future, we anticipate SUV won't need to undertake substantial capital investments in the Pittong plant or mine assets. This is because most of the required upgrades and improvements to the plant were made between FY22 and FY23. As we look ahead to FY28, the company is poised to generate \$8.3 million in FCF, achieving a robust FCF margin of 23%.

<i>In millions of AUD</i>	FY23	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Revenue	11.3	14.8	27.0	34.0	34.8	35.5
% Growth (YoY)	-19%	31%	83%	26%	2%	2%
Gross Profit	0.3	1.1	8.5	14.3	15.2	15.9
% Margin	3%	8%	31%	42%	44%	45%
Operating Income	(6.3)	(3.9)	3.8	9.5	10.3	10.9
% Margin	-56%	-26%	14%	28%	30%	31%
Free Cash Flow	(7.1)	(3.7)	4.0	9.7	7.9	8.3
% Margin	-63%	-25%	15%	29%	23%	23%

Discount Rate

To calculate the discount rate applied to the company's future cash flow, the Weighted Average Cost of Capital (WACC) methodology has been used. To compute SUV's cost of equity, an implied equity risk premium of 4.45% along with the Australia 10-year T-Bond rate of 4.24% were used as inputs. For levered beta, the Australia and New Zealand metals and mining industry average unlevered beta of 0.92 was utilised. To this computed cost of equity of 8.67%, a 3% small-cap risk premium is added, allowing for the additional risk inherent in small-cap companies. Based on these assumptions, the adjusted cost of equity is 11.67%. For the debt component of WACC, a cost of debt of 10% was used, reflecting the interest rate on the recent \$1m loan secured by SUV. After weighting the cost of equity and cost of debt to reflect SUV's capital structure, we derive a discount rate of 11.26%.

Discounted Cash Flows and Terminal Value

The discount rate of 11.26% is utilized to discount SUV's forecasted FCFs, resulting in a total present value of cashflows totaling \$17.9 million. In determining the terminal value of SUV, we employ a terminal growth rate of 3.5% alongside a terminal discount rate of 9%. The utilisation of a comparatively lower terminal discount rate of 9%, as opposed to the forecast period discount rate of 11.26%, mirrors our anticipation of risk-free rates normalising and declining during the terminal period. Using the Gordon growth model as well as the terminal year (FY28) FCF of \$8.3m results in a terminal value of \$155.9m in FY28. The present value of the terminal value is computed as \$98.2m.

Equity Value and Intrinsic Value per Share

The combined present values of SUV's projected Free Cash Flows (FCFs) and terminal value yield an Enterprise Value of \$116.1m. Adjusting the enterprise value for an estimated post-capital raise cash balance of ~\$6.1m and debt of ~\$2.7m results in an equity value of \$119.5m. Dividing this by the outstanding shares after the capital raise, totaling ~1 billion, yields an intrinsic value per share of \$0.119. This valuation suggests a potential upside of around 285% from the current share price of \$0.031. It's crucial to emphasize that this valuation conservatively assesses the value of SUV's foundational kaolin business, without factoring in the substantial upside which could be generated from the geopolymer concrete opportunity.

COMPARABLE COMPANIES

In the Australian market, SUV has two main comparable companies which are WA Kaolin (ASX:WAK) and Andromeda Metals (ASX:ADN).

WA Kaolin. WA Kaolin (ASX:WAK) is an Australian dry Kaolin production company that holds the Wickepin Kaolin project located 220km southeast of Perth, Western Australia. WAK is currently in the production phase and in the latest quarter, Q2 FY24, sold 3,948 tonnes earning revenue of \$821,436. This indicates a selling price per tonne of \$180, significantly lower than the ~\$590 per tonne for SUV's hydrous kaolin. This discrepancy underscores the premium value that hydrous kaolin can command in the market.

Andromeda Metals. Andromeda Metals (ASX:ADN) is a South Australian kaolin exploration company aiming to produce halloysite-kaolin products. Although ADN is yet to commence production, it plans to build a plant to produce 50,000 tpa of halloysite-kaolin. According to a recent Definitive Feasibility Study unveiled by the company, the projected cost for constructing this plant is ~\$40 million. This is illustrative of the significant capital investment required to establish competing kaolin-processing plants.

Relative Valuation. When analyzing the market valuation of SUV in comparison to WAK and ADN using the Price/Sales (P/S) metric, it becomes evident that SUV is considerably undervalued. WAK is currently trading at a premium P/S multiple of 21x compared to SUV's modest 2.5x. Conversely, ADN, being pre-revenue, requires substantial capital investment for plant establishment and kaolin mine development, potentially leading to significant shareholder dilution.

	Market Cap (\$M)	FY23 Sales (\$M)	Price/Sales
WA Kaolin	30.62	1.46	21.0x
Andromeda Metals	82.27	-	-
Suvo Strategic Minerals	27.8	11.26	2.5x

KEY PEOPLE

Aaron Banks – Non-Executive Chairman

Aaron is a specialist business consultant with over 20 years of experience in contract negotiations and business development including senior roles in sales, marketing and construction management. In 2015, as founder and Managing Director of Australian Silica Pty Ltd, Aaron discovered one of the largest high-grade silica sand resources in the world. In 2020, he vended his private companies into what is Suvo Strategic Minerals today. Aaron has an extensive background in industrial minerals and has focused on developing emerging assets globally. Aaron was appointed to the role of Non-Executive Chairman on 7 March 2023.

Bojan Bogunovic – Interim Chief Executive Officer

Bojan has over 10 years of experience in accounting, audit and finance. Bojan was appointed as the company's Interim CEO on 30 October 2023. Before his appointment, Bojan held the position of Chief Financial Officer at the company, preceded by his role as Group Financial Controller. Prior to joining SUV in July 2021, Bojan was the Group Financial Controller at Kalium Lakes Limited, an Australian mining company focused on potash. Bojan holds a Bachelor of Commerce (major in Accounting and Finance) from Curtin University.

Hanno Van Der Merwe - Chief Operating Officer

Hanno has over 25 years of experience in Project Management and Production Management, holding qualifications in Production Engineering and a Master of Business Management. He has delivered a number of highly successful projects in Australia and Africa, holding senior management roles in the mining, oil and gas, renewable energy, engineering, construction, maintenance and telecommunications industries. Hanno has held the position of COO at SUV since September 2022 and was a Pre-Contact Manager at ENC Consulting Group prior.

KEY INVESTMENT HIGHLIGHTS

Clear Business Strategy

SUV strategically positioned itself as the exclusive producer of hydrous kaolin following the acquisition of the Pittong operations, securing an impressive 90% share of the domestic market in the process. Due to limited growth opportunities domestically, SUV has embarked on a strategic expansion into the Asian market. Supported by a robust sales pipeline and burgeoning partnerships in key Asian markets, SUV is poised to capitalize on this significant growth opportunity. Beyond its dominance in the kaolin sector, SUV has diversified its growth initiatives through Collicrete, an innovative formulation of geopolymers concrete. By spearheading the development of Collicrete to disrupt the USD 386 billion concrete and cement industry, SUV is strategically positioned to capitalize on the global trend towards sustainable building materials. With a clear and comprehensive business strategy, SUV has solidified its position as a leading kaolin producer, paving the way for significant revenue expansion.

Significant Investment Upside

Since its inception, SUV has demonstrated a remarkable trajectory of growth and operational efficiency growing from a revenue of zero to \$11.3 million in just three years. Despite its impressive performance, the market has yet to fully recognize the company's potential, presenting investors with compelling upside in the share price.

With a projected sales revenue of \$14.7 million in FY24, marking a 31% increase from the previous year, and a cumulative annual growth rate of 26% expected over the next 5 years, SUV is poised for substantial revenue expansion. Moreover, the company's focus on increased plant utilisation and cost optimisation is expected to improve operating margins to 31% by FY28. These factors underscore SUV's ability to drive top-line growth while enhancing profitability. A DCF intrinsic valuation of ~\$0.119 implies a significant upside potential of ~285% from the current share price. This valuation conservatively only takes into account the company's core kaolin business without factoring in the lucrative growth opportunity presented by geopolymers concrete.

High Barriers to Entry

SUV's acquisition of Imerys' Australian kaolin operations established its position as the sole producer of a hydrous high quality kaolin in Australia, with the plant conveniently situated near rich kaolin deposits. Alongside the acquisition came a valuable customer base of domestic and international clients, creating an immediate competitive moat. This is because the majority of SUV's customers have maintained relationships with the Pittong plant for over two decades, thus evidencing a high level of customer loyalty. Moreover, the prospect of constructing a comparable hydrous kaolin plant, with costs estimated between \$50 million and \$100 million, coupled with the considerable time investment required, poses formidable barriers to potential competitors in the domestic market. Internationally, the high shipping costs associated with importing kaolin into Australia serve as a deterrent to competing with SUV, thus safeguarding its local market share. Beyond its competitive moat in the kaolin industry, SUV has also secured the exclusive intellectual property rights to Collicrete which gives it a unique advantage in the growing market for low-carbon alternatives to conventional cement-based concrete.

Successful Management

At the helm of SUV is an accomplished team, spearheaded by seasoned professionals who bring a wealth of expertise and vision to the company's operations. The team is led by Bojan Bogunovic who has a strong background in finance leadership positions at various mining companies. As acting CEO, Bojan has been instrumental in leading SUV's sales

and marketing activities in Asia in line with the company's expansion strategy. As Non-Executive Chairman, Aaron Banks has contributed significantly towards shaping SUV's strategic direction. Leveraging his experience in contract negotiations and business development, Aaron has played and continues to play a pivotal role in the development and commercialisation of the company's Collicrete project. Supporting Bojan in running the day-to-day operations of the Pittong plant and kaolin mines is Hanno Van Der Merwe who brings over 25 years of experience in project and production management across diverse industries. Overall, SUV's key management continues to execute on the company's vision, effectively positioning it for sustained success in both the kaolin industry and the geopolymers concrete industry.

Scalable Business

At its Pittong plant, SUV boasts ample excess capacity to fulfill new customer orders with ease and scalability. Leveraging the Pittong plant's versatility in manufacturing multiple products, SUV can seamlessly adapt to produce a diverse range of kaolin products tailored to meet customer demands. On the business development side, SUV has utilised its expertise in selling kaolin to Australian companies to effectively sell and venture into the Asian market. In addition, SUV can efficiently scale revenue generation of its Collicrete opportunity through a licensing business model. This would enable SUV to capitalise on the "green" geopolymers concrete market opportunity without significant investment in production equipment.

INVESTMENT RISKS

Failure to Meet Production and Revenue Targets

SUV's growth projections and valuation are contingent upon meeting production and revenue targets. Any unplanned plant downtime, loss of contracts or supply chain disruptions would negatively impact SUV's ability to meet its kaolin production forecasts. Besides impacting SUV's financial performance, this could lead to reduced investor confidence in the company's ability to execute its business strategy. Nevertheless, it's worth highlighting that SUV is gaining momentum in Asia, reflected in its robust sales pipeline. Additionally, recent upgrades made to the Pittong plant have resulted in high levels of production reliability thus mitigating the risk of plant downtime. Consequently, we believe that SUV will reach its production and financial targets.

Competition Risk

The emergence of a competing high-quality hydrous kaolin producer within Australia or even Asia could negatively impact SUV's market share and financial performance as a result. A new entrant producing identical kaolin products at a more attractive price point could result in price competition that would diminish SUV's growth and profitability prospects. However, given SUV's loyal client list as well as the significant capital and time investment required to establish a competing hydrous kaolin plant and mine, we strongly believe that SUV is well insulated from this risk.

Key Contractor Risk

SUV depends heavily on third-party contractors for mining and transporting kaolin to the plant and customers. If these contractors abruptly terminate their agreements with SUV, the company's production efficiency could suffer significantly, as finding replacements would take time. Additionally, these contractors might raise their prices when it's time to renew their agreements which would negatively impact SUV's gross margins.

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