

Hazer Group Ltd

(HZR \$0.29) Speculative Buy

EUROZ

Analyst	Date	Price Target
Seth Lizee	17 th April 2019	\$0.85/sh

March Quarterly Update

Investment case

HZR has finished the March Quarter demonstrating strong progress on technical and commercial fronts as well as maintaining a strong cash position. We continue to see progress suggesting that HZR is on course to meet its key technical and commercial milestones. If HZR can gain third party validation via these agreements/technical milestones we feel investors will impute more value on HZR's ability to disrupt two huge global industries. The hydrogen market is worth US +\$130 Billion annually and the graphite market worth US +\$14 Billion annually.

We maintain our Speculative Buy Recommendation and \$0.85/sh Price Target.

Key points

- Commercial Demonstration Plant ("CDP") discussions ongoing with strong 3rd Party interest;
- Significant carbon emissions abatement potential confirmed by leading global consultant;
- Commercial Demonstration Plant ("CDP") Front End Engineering Design ("FEED") study finalised;
- Initial commercial plant concept study completed;
- Two Australian innovation patents received during quarter;
- HZR finished the Mar'19 Quarter with a cash balance of ~\$7.0m vs our forecast of \$6.6m (Pro-forma).
- We maintain our \$0.85/sh Price Target and Speculative Buy recommendations with our view of key near term catalysts being:
 - Completion of FBR Pilot plant testing** – Estimated to be achieved by mid to late CY'19;
 - Offtake/Funding for CDP** – Single biggest catalyst in our view, expected to occur in Jun'19 Half;
 - Pivot in strategy** - very well placed within the strengthening emissions macro theme;
 - Commissioning of the MIN 1tpa Pilot plant** – Commissioning activities are ongoing with plans to be finalised in coming months.

Hazer Group Ltd	Year End 30 June	
Share Price	0.29	A\$/sh
Price Target	0.85	A\$/sh
Valuation	0.88	A\$/sh

Shares on issue	97.3m, undiluted
Options on issue	44.7 m
Market Capitalisation - undiluted	28.2 A\$m
Enterprise Value	21.2 A\$m
Debt	0 A\$m
Cash	7.0 A\$m

Turnover	223k	sh/day
12 Mth Hi-Lo	0.46 - 0.19	A\$/sh
Balance date	June 30th	

Directors & Management

Geoff Ward	CEO
Mark Edwards	COO
Dr Andrew Cornejo	CTO
Emma Waldon	CFO
Tim Goldsmith	Chairman
Simon Rushton	NED
Danielle Lee	NED
Dr Andrew Harris	NED

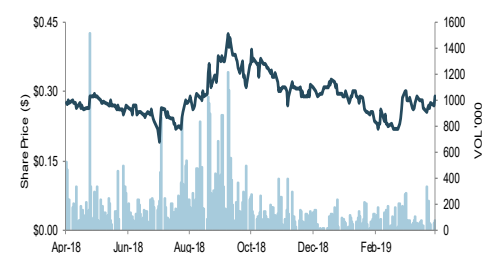
Shareholders

Mineral Resources (MIN.ASX)	10.6%
Andrew Cornejo	6.9%
Point at Infinity pty ltd	6.7%

Company details

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Share Price Chart



Disclaimer

This analyst declares that he has a beneficial interest in Hazer Group Ltd.

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Analysis

Key Themes / Catalysts

We believe the following agreements/technical milestones are key to achieving third party valuation, and with that fruition of HZR's value by investors.

1. **Completion of plant testing** - with capacity targets met (stage 1), HZR is now focused on improving product purity (stage 2) and maintaining operations for durations of greater than 24hrs (stage 3). Euroz estimates this to be achieved by mid to late CY'19.
2. **Offtake/Funding** - this is the single biggest catalyst in our view. Offtake will provide further third party validation for potential commercial application of the HZR. HZR has outlined a target capital cost of ~\$US10million (Dec'Q18) for the CDP. We expect this to occur in June Half 2019; this broadly in line with managements stated target to "secure all necessary project agreements...in mid-2019".
3. **Pivot in Strategy:** HZR has recently discussed a refocus of strategy towards 'waste-to-resource' a concept that builds onto the idea of a circular economy, this carbon negative strategy in our view is very well placed within the strengthening emissions macro theme. Although still within its early days we believe this strategy offers a step up in opportunities going forward and should be watched closely.
4. **Commissioning of the MIN 1tpa pilot plant** - this will be the first large scale proof of concept for the HZR technology, HZR have stated commissioning activities plan to be finalised over the coming months.

Corporate

- HZR finished the Mar'19 Quarter with a cash balance of ~\$7.0m vs our forecast of \$6.6m (Pro-forma) with notable movements due to:
 - ~\$1.64m R&D tax incentive cash rebate received;
 - ~\$0.89m received from options exercised.

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Operational Updates – Highlights

Highlights of operational/technical update from this quarter:

- **CDP commercial discussions** – HZR has stated that they are aiming to secure all necessary agreements for a final investment decision by mid-2019; As stated above we view this as being the most important catalyst going forward, with key agreements including:
 - Downstream offtake partners;
 - Feedstock (Biogas) suppliers;
 - Funding partners.
- **Emissions Abatement** – HZR has confirmed significant emissions abatement potential of the HZR process, with:
 - Estimated abatement credit of -100-110t CO₂ (Equiv.) /t hydrogen produced when the plant is operated with a Biogas feedstock.
 - We see this as a further quantification of the potential for HZR to benefit from the strengthening emissions reduction macro theme; with potential to strengthen project economics going forward.
- **CDP FEED Study Finalised** – HZR has announced the completion of the Commercial demonstration plant (“CDP”) Front End Engineering Design study (“FEED”) during the quarter and that the final report is expected to be received in April. Key points include:
 - -100 tpa hydrogen and -375tpa graphite designed capacity;
 - -\$15m (+/- 30%) estimated capital costs;
 - Study scope was expanded to include ‘biogas pre-treatment facilities’ and ‘compression/storage’ of hydrogen.
- **Commercial Plant Concept study** – HZR has completed an initial concept study for a commercial scale HZR plant. Key points/results include:
 - 2,500 tpa Hydrogen -8,810 tpa graphite design capacity;
 - Enough to supply -200 buses, 150-400 freight trucks or 6,000 light passenger vehicles.
 - \$40-50m (+40%/-20%) capital costs (varies depending on feedstock quality, location and storage);
 - 600 m² plant footprint;
 - Sized for capital efficient scale to be supplied off existing domestic biogas supply (landfill/WWTP);
 - Management have stated they look to progress early stage discussions with potential partners through 2019.

Valuation

We maintain our 12 month price target for HZR of \$0.85/sh. Using previously outlined methodology (refer “AGM/Shareholder Update” note from 28th Nov 2018):

ESL High level comparables Valuation		
	A\$m	A\$/sh*
Comparable EV	118.1	0.83
+ Unpaid Capital from Opt.	0.0	0.00
- Debt	0.0	0.00
+ Cash	7.0	0.05
Total	125.1	0.88
*Fully diluted		
Price target		0.85

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