

First Cobalt Corp.

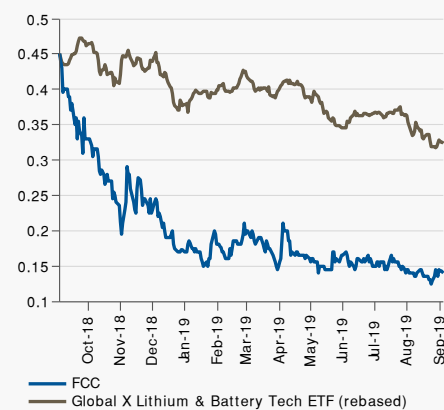
Specialty Minerals and Metals

Canadian Equity Research
4 September 2019

SPECULATIVE BUY

PRICE TARGET C\$0.70
Price (3-Sep) C\$0.14
Ticker FCC-TSX

52-Week Range (C\$): 0.12 - 0.45
Avg Daily Vol (000s): 394.71
Shares Out. (M): 372.3
Market Cap (C\$M): 52.1
Dividend /Shr (C\$): 0.00
Dividend Yield (%): 0.0



Source: FactSet

Priced as of close of business 3 September 2019

Company Update

Paving a path to a refinery restart

Impact: Neutral

We maintain our SPECULATIVE BUY rating and C\$0.70 target price for First Cobalt. The company announced the awarding of key contracts to complete a definitive feasibility study (DFS) on its proposed expansion to 55t/d of the First Cobalt Refinery, and outlined upcoming timelines for delivery of the technical study.

The contractors First Cobalt has engaged are all well-regarded and the list includes:

- **Ausenco Engineering Canada Inc.** for preparation of the DFS for the refinery restart
- **SGS** for advanced metallurgical test work on cobalt hydroxide and a specialty cobalt feed to be supplied by Glencore
- **Knight Piésold** for tailings studies in support of the feasibility study
- **Story Environmental** for environmental and permitting parts of the engineering studies

Glencore (GLEN-LON | Not rated) will also provide technical support throughout the study phase using its Sudbury-based affiliate, XPS – Expert Process Solutions.

We consider awarding these contracts and identifying clear timelines as key in the potential North American production of refined cobalt materials crucial to the EV market.

First Cobalt intends to commence a field program at the refinery as soon as possible, with the aim of testing and inspecting installed equipment to gain a better understanding of the condition of the refinery and identifying components that require upgrading or replacement. **The company is targeting completion of all supporting work by the end of Q1/20;** deliverables will include: a NI 43-101 technical report on a 55t/d refinery restart and a prefeasibility study on a 12t/d interim operating scenario.

Glencore and FCC first entered a memorandum of understanding in May to supply cobalt feedstock to the refinery. In July, the two companies agreed to a term sheet outlining a phased approach to recommissioning the refinery, followed by FCC securing a US\$5M loan through Glencore in August to advance the engineering, metallurgical testing, field work and permitting associated with a recommissioning and expansion of the refinery (see our previous note [Glencore gets to second base](#), August 2019).

The cobalt landscape: investment vehicles for exposure to cobalt have narrowed in the past few months following the Jervois Mining (JRV-ASX | Not rated) acquisition of eCobalt Solutions, as detailed in [Lifeline grabbed](#) (July 2019), and the potential acquisition of Cobalt 27 (KBLT-TSX | SPECULATIVE BUY rating, C\$5.00 TP) by major shareholder Pala Investments, which will be voted on 12 September 2019 (see [Superior Proposal waiting in the weeds?](#), 3 September). If the vote is supportive of the Cobalt 27 deal, First Cobalt will, in our view, become the key investment vehicle in our coverage for exposure to cobalt. Today's announcement continues to demonstrate First Cobalt's ability to advance its Canadian-based cobalt project in partnership with Glencore.

Valuation. At 0.16x normalized P/NAV (5%) First Cobalt trades at a significant discount to covered non-precious metal exploration peers at 0.23x. The refinery currently contributes approximately one-third of our target NAV and we believe that as the company continues to provide clarity on the route forward and commences work with Glencore, it will de-risk the company and could offer a re-rating opportunity.

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Investment Recommendation

Date and time of first dissemination: September 04, 2019, 09:27 ET

Date and time of production: September 04, 2019, 09:27 ET

Target Price / Valuation Methodology:

First Cobalt Corp. - FCC

We value First Cobalt's assets on a spot cobalt basis, currently US\$13/lb. Our valuation yields a project NAV of \$244 million or \$0.58/sh. We add net corporate adjustments of \$35 million or \$0.08/sh with 421 million shares outstanding. We apply a 1.0x multiple to the corporate NAVPS of \$0.66 to yield our target NAVPS of \$0.66, which supports a rounded target price of C\$0.70.

Risks to achieving Target Price / Valuation:

First Cobalt Corp. - FCC

Aside from the usual risks associated with exploration and development, risks center on cobalt pricing, the technical assumptions we have made in our project valuations in advance of the company's delivery of technical reports, and potential risks from environmental and safety legacies in the Cobalt mining camp in Ontario.

Distribution of Ratings:

Global Stock Ratings (as of 09/04/19)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	517	58.62%	51.64%
Hold	208	23.58%	36.06%
Sell	25	2.83%	12.00%
Speculative Buy	132	14.97%	75.00%
	882*	100.0%	

*Total includes stocks that are Under Review

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

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An analyst has visited the material operations of First Cobalt Corp.. Partial payment was received for the related travel costs.

First Cobalt Corp. Rating History as of 09/03/2019



Past performance

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