

Hazer Group

A\$14.7m new capital raised; Material CDP progress de-risks target start-up in 2023

Hazer group (“HZR”) has completed a A\$14.7m equity raise, following the achievement of key de-risking milestones at its Commercial Demonstration Plant (“CDP”), announced on 31st July. These key advancements should ensure the second phase of the CDP remains on track to commence ‘hot operations’ in H2’23. Upon completion, the CDP will be the first fully integrated demonstration of the Hazer process in producing hydrogen and graphitic carbon, representing an important next step in full commercialisation of the technology. CDP ramp up will also provide valuable optimisation data ahead of the final investment decision for the Hazer-BC Project expected in H1’24. To ensure the delivery of the CDP, as well as strengthening HZR’s funding position, the company announced a 3 for 16 Entitlement Offer (issue price: A\$0.48/sh) on 31st July. The Offer closed on 18th August, raising gross proceeds of \$14.7m, including a A\$6m portion underwritten by Viriathus Capital Pty Ltd. Inclusion of the new capital raised dilutes our target valuation by ~14% to A\$1.73/sh, offering 249% upside to the current share price. We expect further positive news flow in H2’23 as the CDP progresses to ‘hot operations’.

Successful completion of Entitlement Offer - A\$14.7m raised

HZR has announced the closing of the non-renounceable pro-rata entitlement offer, raising A\$14.7m. Under the Entitlement Offer, eligible shareholders were invited to subscribe for 3 new ordinary shares for every 16 existing shares, at an issue price of A\$0.48 per share, with an attaching new option, on a 1 for 2 new shares basis, at A\$0.75 exercise price and expiring on 28th Feb 2025. Eligible shareholders were also able to apply for any shortfall. Roughly 50% of the entitlements on offer were taken up, representing proceeds of ~A\$7.7m, with these New Shares and New Options due to be issued on 22nd August. In addition, partial underwriting was secured for A\$6m by Viriathus Capital Pty Ltd, also the lead manager, with some directors participating as sub-underwriters, bringing gross proceeds to A\$14.7m, including the shortfall offer. Funds raised will support operational performance from the CDP post start-up, advance Hazer’s existing commercial projects in North America, Japan, and France, and unlock further opportunities in target markets.

CDP key milestones support scheduled H2’23 start-up

Construction and “Phase 1” commissioning of the CDP was completed in Jun’22 and “Phase 2” of the CDP (‘hot operations’) remains on schedule for H2’23. Initial challenges with the fabrication and supply of high temperature materials from China, as well as the heat-exchange vessel suffering failure during the manufacturing process, resulted in a delay to procurement of the two key CDP components. However, the replacement heat exchanger has now passed the critical heat treatment milestone where failure occurred last year and the hot reactor materials from Forgiatura Morandini for the existing hot-wall reactor design have been manufactured and successfully passed inspection, ahead of the September fabrication target. The delivery and installation of the reactor and heat exchanger equipment are key enablers for the transition to hot operations and will facilitate the early commissioning of the CDP in Q3/Q4’23. We expect the commissioning of the CDP to be a key milestone and provide a large amount of data for the Hazer process’ scalability and journey to commercialisation through its projects around the world.

Valuation: A\$1.73/sh target price for 249% upside potential

We value HZR as a capex-lite business, with a 3% royalty on hydrogen and carbon sales, and a licencing fee of A\$46/t of Hazer Process capacity installed or under construction. We assume first output from HZR facilities from Jan’26, ramping up to 500ktpa of H₂ capacity by 2031E. We use hydrogen and carbon prices of US\$5/kg and US\$300/t respectively, driving an unlevered DCF for HZR of A\$908m, to which we apply a target P/NAV of 0.4x to account for early-stage risk. We adjust for net cash and assumed capex for the Hazer-BC project, while noting HZR is likely to be carried for its share. Post completion of the Entitlement Offer, this delivers a risked valuation of A\$1.73/sh, offering 249% upside to the current share price.

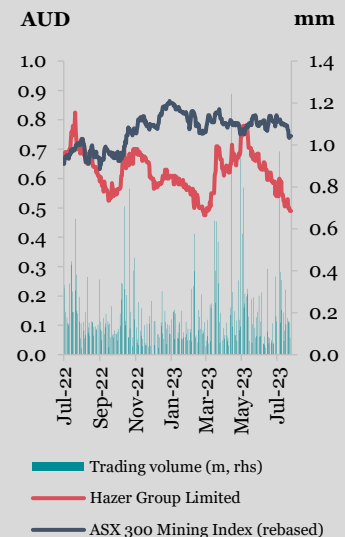
GICS Sector	Energy
Ticker	ASX:HZR
Market cap 18-Aug-23 (US\$m)	54.2
Share price 18-Aug-23 (A\$)	0.495
Target price June-24 (A\$)	1.73

+249%

Upside from current share price to our A\$2.00/sh risked NPV

7.4%

Hydrogen demand CAGR forecast from 2021 to 2030 to achieve net-zero (IEA)



The cost of producing this material has been covered by Hazer Group as part of a contractual engagement with H&P Advisory Ltd.

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Heat exchanger successfully completes heat treatment



Source: Company reports

Hazer's Key Activities through to the end of 2024

	CY2023		CY2024
	H1	H2	H1
Commercial Demonstration Plant (100 Ipa)	Procurement, Fabrication, Engineering & Installation		
		Ready for Start-up	
	Today	Targeted Production & Testing Program	
Hazer-Forlis 2,500 Ipa Canada Plant	FEED Studies in Canada and Targeted FID		🎯
New Potential Projects in Target Markets	 Japan France		
	Identify New Commercial Projects		
	Japan & France Project Development Plans		
Mitsui & Graphite Market Development	Developing Market for Hazer Graphite		Offtake Agreement
Corporate Updates	ARENA Grants	R&D Rebates	Corporate Access Events
			ARENA Grants

Source: Company reports

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