

Lotus Resources Ltd. (ASX:LOT)

Development Update

Low Capital Restart DFS as Promised; We Lower Target to Match

August 12, 2022

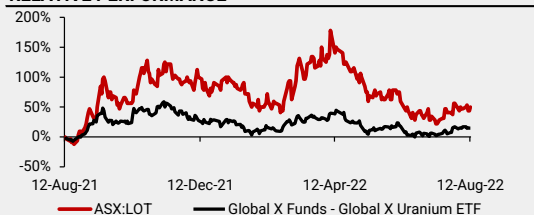
(Currency is A\$ unless noted otherwise)

Closing Price (\$/sh)		\$0.24
Rating		BUY
Target (\$/sh)		\$0.30
Return to Target		25%
52 Week Low / High		\$0.14 / \$0.46
CAPITALIZATION	Basic	Diluted
Shares Outstanding (M)	1,207.0	1,254.0
Market Capitalization (\$MM)		\$289.7
Enterprise Value (\$MM)		\$269.7
Cash and Cash Equivalents (\$MM)		\$20.0
Total Debt (\$MM)		\$0.0

STOCK CHART



RELATIVE PERFORMANCE



FYE JUNE 30	2024E	2025E	2026E
Total production (M lb)	0.0	1.8	1.8
Total cash costs (US\$/oz)	0.0	30.5	30.5
EPS (\$/sh)	-0.02	0.03	0.03
CFPS (\$/sh)	-0.02	0.04	0.04

RELATIVE VALUATION	US\$ EV/lb U ₃ O ₈	P/NAV
Lotus Resources Ltd.	\$4.04	0.80x
Peers*	\$3.16	2.99x

*Capital IQ Consensus

MAJOR SHAREHOLDERS (According to IQ)

Lloyd Harbor Capital Management, LL (5%), Sprout Asset Management LP (4.77%)

DISCLOSURE CODE:

1,2

(Please refer to the disclosures listed on the back page)

Source: RCS, Company Information, Capital IQ

Company Description

Lotus Resources Limited engages in the exploration and development of mineral properties in Australia and Malawi. Its flagship property is the 85%-owned Kayelekera uranium project located in northern Malawi, Africa, with current resources of 46.3M U3O8 (M&I&I). The company was formerly known as Hylea Metals Limited and changed its name to Lotus Resources Limited in August 2019. Lotus Resources Limited was incorporated in 2006 and is based in West Perth, Australia.

Impact: Positive

Lotus Resources provided a Definitive Feasibility Study (restart DFS) for its 85%-owned Kayelekera uranium project in Malawi. It announced 15.9Mt at 660 ppm U3O8 for 23M lb U3O8 in reserves, with average production of 2.4M lb U3O8 per annum over a 10-year life-of-mine (Figures 1 & 2). We note that the low initial capital cost of US\$88M, with an initial capital intensity of US\$37/lb, ranks the project as one of the lowest capital costs globally. **Overall, we view this update positively, especially from an impressive cost control POV given the current inflationary environment. Furthermore, we believe Lotus has one of the larger, near-term uranium projects with relatively low risk given that its flowsheet is already well understood due to past production. Several processing and mining plans issues have been addressed.**

- **Quick re-start to production anticipated.** Lotus will be looking to re-start Kayelekera with a 15-month development timeline prior to first production. Following these activities, a final investment decision on Kayelekera will likely depend on the uranium price. Furthermore, we note that marketing and financing discussions have begun.
- **Initial capex remains low,** and is expected at ~US\$88M, with a capital intensity of US\$37/lb per annum, up from the previous study's refurbishment estimate of US\$50M. An additional US\$38M covers the acid plant, connection to the national grid, nanofiltration upgrades, and addition of the ore sorter at the front end, as expected.
- **Operating costs decline.** C1 cash costs declined to US\$29.10/lb, while AISC at US\$36.20/lb (excl. ramp up). Notably, prices fell despite high inflation due to high-grade feeds and cheaper grid power.
- **New mine plan.** A proven flowsheet, low strip ratio, and other work has been completed to create a new mine plan and minimize impact of poor conditions in the open pit by avoiding mudstone benches.
- **ESG results have improved.** CO₂ emissions were reduced to 72% or ~21,000 tpa compared to the historical operation. Additionally, over 600 jobs were created for the local community. Management noted that a Community Development Agreement is also in progress.
- **We lower our production rate used in our DCF model.** Much of the drop in valuation is a result of our overestimating the impact of ore sorting. We expected a move towards higher production (~3M lb pa), but the DFS went the route of using higher grades to reduce costs while maintaining throughput. Thus, we lower our production estimate in line with the DFS at 2.4M lb pa. The study was an improvement over two PFS scenarios: 1) 2.1M lb over 8 years, and 2) 1.7M lb over 16 years. We now model ~20.7M lb production vs 37.5M lb prior. We see potential for further resource conversion and resource growth such that we would expect a longer than a 10-year LOM.

We maintain our BUY rating and lower our target to A\$0.30/sh (was A\$0.40/sh). While Kayelekera's NPV and our valuation has decreased (Figure 3), LOT trades at a discount to its peers at a P/NAV of 0.80x vs. peers at 2.99x. **Catalysts:** 1) Exploration drilling (ongoing), 2) production decision (pending U3O8 price), 3) Field work at Milenje Hills (H2/22).

Figure 1: Key project outputs

Production	LOM total / Avg.
Mine Life (Years)	9.5
Total Material Mined (Mt)	40.5
Strip Ratio	1.8
Ore Tonnes (Mt)	14.3
Ave Mined Grades (ppm U ₃ O ₈)	648
Total U ₃ O ₈ Mined (Mlbs)	20.5
Existing Stockpiles	
Tonnes (Mt)	4.1
Grade (ppm U ₃ O ₈)	470
Plant	
Crusher Feed (Mt)	18.4
Crusher Feed Grade (ppm U ₃ O ₈)	609
Ave Feed Upgrade factor	1.30
Ave Ore Sorting Recovery (%)	77.8
Mill Feed (Mt)	12.8
Average Mill Feed Grade (ppm U ₃ O ₈)	792
Process Plant Recovery (%)	86.7
Av. Annual Production (Mlbs)	2.03
Steady State Annual Production (MLbs)	2.42
LOM Production (Mlbs)	19.3
Operating costs	
Mining Costs (US\$ / t mined)	3.04
Processing Costs ⁷ (US\$ / t ore)	27.60
G&A Costs (US\$M pa)	11.10
Cash costs (US\$ / lb)	30.10
AISC (US\$ / lb)	37.70
Initial Capital costs	
Initial Capital (US\$M)	78.3
Contingency (US\$M)	9.5
Pre-Production (US\$M)	11.5

Source: Company Reports

Figure 2: Lotus ore reserve inventory – July 2022

Project	Category	Mt	Grade (U ₃ O ₈ ppm)	U ₃ O ₈ (M kg)	U ₃ O ₈ (M lbs)
Kayelekera	Open Pit - Proved	0.6	902	0.5	1.2
Kayelekera	Open Pit - Probable	13.7	637	8.7	19.2
Kayelekera	RoM Stockpile – Proved	1.6	760	1.2	2.6
Kayelekera	Total - Kayelekera	15.9	660	10.4	23.0

Source: Company Reports

Figure 3: Changes to RCS' valuation summary

Net Asset Value	Previous Valuation		Updated Valuation		% Change	
	A\$M	A\$/sh FD	A\$M	A\$/sh FD	A\$M	A\$/sh FD
Projects & Interests						
Kayelekera, Malawi (85%) 8%	\$516.8	\$0.41	\$309.9	\$0.21	(40.0%)	(48.5%)
Asset NAV	\$516.8	\$0.41	\$309.9	\$0.21	(40.0%)	(48.5%)
Cash & Cash Equivalents	\$20.0	\$0.02	\$20.0	\$0.01		
Debt	-	-	-	-		
Sunrise Energy Metals (ASX:SRL)	\$1.31	\$0.00	\$1.89	\$0.00		
Additional Resource Value	\$12.7	\$0.01	\$119.7	\$0.08		
Exploration upside	\$20.8	\$0.02	\$41.7	\$0.03		
Corporate G&A	(\$30.5)	(\$0.02)	(\$29.3)	(\$0.02)		
Corporate NAV	\$541.1	\$0.43	\$463.8	\$0.32	(14.3%)	(26.3%)
Multiple		0.90x		0.90x		-
Target		\$0.40		\$0.30		(25.0%)

Source: RCSI

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Updated August 11, 2022

Recommendation / Target Change			Red Cloud Securities has this percentage of its universe assigned as the following:	
Date	Rating	Target	Status	%
2021-03-26	NA	NA	BUY	71%
2021-07-06	NA	NA	BUY (S)	24%
2021-07-28	BUY	0.22	HOLD	0%
2021-10-13	BUY	0.40	TENDER	1%
2021-10-15	BUY	0.40	NA	2%
2021-10-21	BUY	0.40	UNDER REVIEW	2%
2021-11-23	BUY	0.40		
2022-02-16	BUY	0.40		
2022-02-28	BUY	0.40		
2022-03-03	BUY	0.40		
2022-03-10	BUY	0.40		
2022-06-27	BUY	0.40		

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Company Name	Ticker Symbol	Disclosures
Lotus Resources Ltd.	ASX:LOT	1,2

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