

19 August 2022

## Lotus Resources Limited (LOT) Buy

**Share Price: A\$0.22**

### Updated DFS confirms low-cost restart

**Target Price: A\$0.51**

LOT Resources has completed its restart DFS for the Kayelekera project confirming a financially robust project producing 19.3Mlbs U<sub>3</sub>O<sub>8</sub> over a 10 year mine life, underpinned by a 23Mlb reserve. LOT expects initial annual production of 2.4Mlbs, an average LOM C1 cash cost of US\$30.1/lb. The initial scoping study replicated PDN's operating parameters at Kayelekera, while LOT's DFS incorporates learnings since acquisition, with cash costs reduced by circa 12%. With 12-15 month refurbishment timetable and capex confirmed at just US\$88m, the Kayelekera project represents a significant, near-term and proven production opportunity for the current uranium cycle. **Maintain BUY, TP A\$0.51/sh (prev. \$0.58/sh).**

#### DFS outlines robust, near-term opportunity

- Kayelekera confirmed as a low-cost and rapid restart project which will produce 2Mlbs p.a. at US\$30/lb.
- Minor variation in key DFS parameters, with lower costs close to offsetting lower grades although we push first production out 6 months to 2H 2024.
- US\$75/lb uranium price assumed, with a Final Investment Decision not expected until a Mine Development Agreement is secured, offtake & financing is concluded, plus an "appropriate uranium price is reached". FID could be as early as end-CY22 & first output in Q1 2024 and first sales in Q2 2024.

#### Capex higher on additional items

- The refurbishment capex for Kayelekera came in line with our expectations at US\$88m, but above scoping study estimates, although plant capex is unchanged.
- An additional US\$13m will connect to the Malawi grid, US\$15m for a new acid plant module with an associated steam turbine, US\$6m to add the sorter modules, US\$1.5m for nano-filtration and US\$9.5m contingency.

#### ESG credentials improved materially

- Kayelekera previously generated 100% of its power requirements from diesel generators.
- Under the revised operating plan, only 8% of power comes from diesel, 28% will come from a steam turbine attached to the acid plant, 39% from Malawi grid power and 25% from the solar farm. Power related emissions are down 72% relative to previous operations.

#### Key Dates Ahead

- 2H 2022 – Offtake negotiations
- 2H 2022 – Mine Development Agreement
- 2H 2022 – Financing negotiations
- 2H 2022 – Final Investment Decision

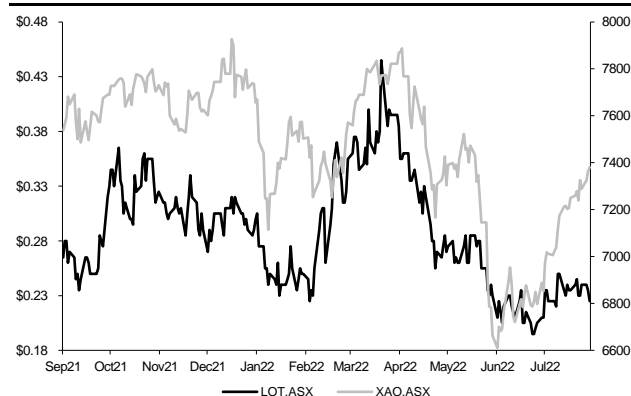
#### Company Data

Shares – ordinary (M)	1,205
Dilution (M)	45
Total (fully diluted) (M)	1,250
Market capitalisation (\$M)	259
12 month low/high (\$)	0.12/ 0.46
Average monthly turnover (\$M)	61.6
GICS Industry	Metals & Mining

#### Financial Summary (fully diluted/normalised)

Year end June	FY21A	FY22F	FY23F	FY24F	FY25F
Revenue (\$M)	0.2	2.3	0.0	46.7	219.4
Costs (\$M)	-6.1	-12.2	-6.6	-28.1	-88.7
EBITDA (\$M)	-5.9	-9.9	-6.6	18.6	130.7
NPAT (\$M)	-5.9	-9.5	-5.4	10.2	91.7
EPS (¢ps)	NA	NA	NA	0.3	5.4
EPS Growth (%)	NA	NA	NA	100%	1666%
PER (x)	NA	NA	NA	70.5	4.0
Op. Cashflow (\$M)	-6.5	-9.9	-5.8	-31.6	73.8
OCFPS (¢ps)	-0.7	-0.8	-0.3	-1.9	4.3
POCFPS (x)	-31.5	-27.1	-62.7	-11.6	5.0
Enterprise Value (\$M)	176.9	264.4	269.7	404.9	344.6
EV / EBITDA (x)	NA	NA	NA	29.7	2.6
Payout Ratio (%)	0%	0%	0%	0%	37%
Dividends (¢ps)	-	-	-	-	2.0
Yield (%)	0%	0%	0%	0%	9%
Franking (%)	0%	0%	0%	0%	0%

#### LOT – performance over one year



#### Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document.

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## Analysis

### Lotus Resources (LOT)

Values are in A\$ millions unless indicated otherwise

Year End June

Income Statement	FY21A	FY22F	FY23F	FY24F	FY25F
<b>Operations Revenue</b>	<b>0.2</b>	<b>2.3</b>	<b>0.0</b>	<b>46.7</b>	<b>219.4</b>
Operating Costs	0.0	-3.1	-1.3	-23.8	-83.7
Corporate & Admin	-2.4	-5.6	-3.3	-4.3	-5.0
Exploration & Other	-3.6	-3.4	-2.1	0.0	0.0
<b>EBITDA</b>	<b>-5.9</b>	<b>-9.9</b>	<b>-6.6</b>	<b>18.6</b>	<b>130.7</b>
D&A	0.0	0.0	0.0	-7.0	-32.7
<b>EBIT</b>	<b>-5.9</b>	<b>-9.9</b>	<b>-6.6</b>	<b>11.7</b>	<b>97.9</b>
Net Interest	0.0	0.4	1.3	-1.5	-6.3
Underlying PBT	-5.9	-9.5	-5.4	10.2	91.7
Tax	0.0	0.0	0.0	0.0	0.0
<b>Underlying NPAT</b>	<b>-5.9</b>	<b>-9.5</b>	<b>-5.4</b>	<b>10.2</b>	<b>91.7</b>
Abnormals	0.0	0.0	0.0	0.0	0.0
Tax on abnormals	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Reported NPAT</b>	<b>-5.9</b>	<b>-9.5</b>	<b>-5.4</b>	<b>10.2</b>	<b>91.7</b>

Cash Flow Statement	FY21A	FY22F	FY23F	FY24F	FY25F
Receipts from Operations	0.1	0.0	0.0	16.0	172.7
Operating Costs	-6.6	-10.0	-7.1	-46.1	-92.6
Net Interest	0.0	0.1	1.3	-1.5	-6.3
Tax Paid	0.0	0.0	0.0	0.0	0.0
<b>Operating Cash Flow</b>	<b>-6.5</b>	<b>-9.9</b>	<b>-5.8</b>	<b>-31.6</b>	<b>73.8</b>
Exploration	-1.3	-2.1	-2.1	0.0	0.0
Capital Expenditure	0.0	-0.6	-23.9	-104.2	-13.1
Acquisitions +Other	0.0	-0.6	-4.1	0.0	0.0
<b>Investing Cash Flow</b>	<b>-1.3</b>	<b>-3.3</b>	<b>-30.1</b>	<b>-104.2</b>	<b>-13.1</b>
<b>Free Cash Flow</b>	<b>-7.8</b>	<b>-13.2</b>	<b>-36.0</b>	<b>-135.7</b>	<b>60.6</b>
Change in Debt	0.0	0.0	0.0	40.0	-40.0
Change in Equity	20.9	1.2	129.1	0.6	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>20.9</b>	<b>1.2</b>	<b>129.1</b>	<b>40.6</b>	<b>-40.0</b>
<b>Change in Cash</b>	<b>13.1</b>	<b>-12.0</b>	<b>93.1</b>	<b>-95.2</b>	<b>20.6</b>

Balance Sheet	FY21A	FY22F	FY23F	FY24F	FY25F
Cash & Equivalants	28.3	3.0	96.1	1.0	21.6
Trade Receivables	0.0	0.0	0.0	30.7	77.5
Other	0.7	0.5	0.5	0.5	0.5
<b>Current Assets</b>	<b>29.1</b>	<b>3.5</b>	<b>96.6</b>	<b>32.2</b>	<b>99.6</b>
PPE	0.0	0.6	24.6	183.6	164.0
Other Non-Current	59.8	80.5	86.6	41.1	46.8
<b>Non-Current Assets</b>	<b>59.8</b>	<b>81.1</b>	<b>111.2</b>	<b>224.7</b>	<b>210.8</b>
<b>Total Assets</b>	<b>88.9</b>	<b>84.6</b>	<b>207.9</b>	<b>256.9</b>	<b>310.3</b>
Trade Payables	0.6	0.7	0.2	3.4	5.2
Current Debt	0.0	0.0	0.0	0.0	0.0
Provisions, Other	2.7	2.8	2.8	2.8	2.8
<b>Current Liabilities</b>	<b>3.3</b>	<b>3.4</b>	<b>3.0</b>	<b>6.2</b>	<b>8.0</b>
Long Term Debt	0.0	0.0	0.0	40.0	0.0
Other	63.2	65.3	65.3	65.3	65.3
<b>Non-Current Liabilities</b>	<b>63.2</b>	<b>65.3</b>	<b>65.3</b>	<b>105.3</b>	<b>65.3</b>
<b>Total Liabilities</b>	<b>66.5</b>	<b>68.8</b>	<b>68.3</b>	<b>111.5</b>	<b>73.3</b>
<b>Net Assets</b>	<b>22.3</b>	<b>15.8</b>	<b>139.6</b>	<b>145.3</b>	<b>237.0</b>

Metrics & Dividends	FY21A	FY22F	FY23F	FY24F	FY25F
EPS	NA	NA	NA	0.3	5.4
PER	NA	NA	NA	70.5x	4.0x
EBITDA GROWTH	NA	NA	NA	306%	859%
EV/EBITDA	NA	NA	NA	29.7x	2.6x
Dividend (cps)	0.0	0.0	0.0	0.0	2.0
Div Yield	0%	0%	0%	0%	9%
Franking	0%	0%	0%	0%	0%

Rating	BUY
Target Price (A\$/share)	0.51
Price (A\$/share)	0.22
Shares on Issue (M)	1,205
<b>Mcap (A\$M, Undiluted)</b>	<b>259.1</b>
EV (A\$M, Undiluted)	231
Unlisted Options (M, Various - Avg Ex @0.046/sh)	24
Zero cost Company options (M)	21
Assumed new shares issued (M, A\$132M @\$0.30/sh)	447
Fully Diluted shares on issue assumed (M)	1,697

R&R (100%)	Meas.	Indic.	Infrd.	Total	Reserves
Ore (Mt)	2.5	29.3	17.6	49.4	16
U <sub>3</sub> O <sub>8</sub> Grade (ppm)	785	510	358	475	660
U <sub>3</sub> O <sub>8</sub> (Mlbs)	4.2	33.2	8.9	51.1	23

Assumptions	FY21A	FY22F	FY23F	FY24F	FY25F
Currency AUD/USD	0.74	0.73	0.72	0.75	0.75
U <sub>3</sub> O <sub>8</sub> (US\$/lb)	32	52	85	85	85

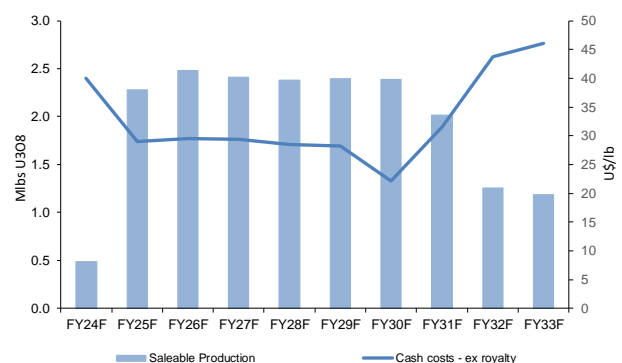
Sorter Feed. (100%)	FY21A	FY22F	FY23F	FY24F	FY25F
Ore Tonnes (Mtpa)	0.0	0.0	0.0	0.2	0.7
U <sub>3</sub> O <sub>8</sub> Grade (ppm)	N/A	0	0	339	282

Process Plant feed (100%)	FY21A	FY22F	FY23F	FY24F	FY25F
Ore Tonnes (Mtpa)	N/A	0.0	0.0	0.3	1.3
U <sub>3</sub> O <sub>8</sub> Grade (ppm)	N/A	0	0	925	927

Saleable Production	FY21A	FY22F	FY23F	FY24F	FY25F
Mlbs U <sub>3</sub> O <sub>8</sub> (100% basis)	N/A	N/A	N/A	0.5	2.3

Sales (US\$/lb U <sub>3</sub> O <sub>8</sub> )	FY21A	FY22F	FY23F	FY24F	FY25F
Cash costs - Exc Royalty	N/A	N/A	N/A	39.9	29.0
Cash costs - Inc Royalty	N/A	N/A	N/A	52.5	32.4
AISC costs	N/A	N/A	N/A	73.1	37.5
Avg Price Rec'd (US\$/lb)	N/A	N/A	N/A	85	85

### U<sub>3</sub>O<sub>8</sub> Production (100%) & Cash Costs - exc Royalty



Valuation	Method	A\$M	A\$/Sh (diluted)
Kayelekera (attributable)	NPV <sub>10</sub> +1	750.0	0.44
Uranium Exploration	Est.	11.5	0.01
Livingstonia Resource	Est.	46.5	0.03
Corporate costs	NPV <sub>10</sub> +1	(32.9)	(0.02)
<b>Enterprise value</b>		<b>775</b>	<b>0.46</b>
Options	A/C	1.1	0.00
Net Cash (Debt) FY23F		96.1	0.06
<b>Equity Value</b>		<b>872</b>	<b>0.51</b>

Source: Petra Capital

## Evolution of Kayelekera Operating assumptions

**Figure 1: LOT Scoping Study, DFS and Petra modelling assumptions**

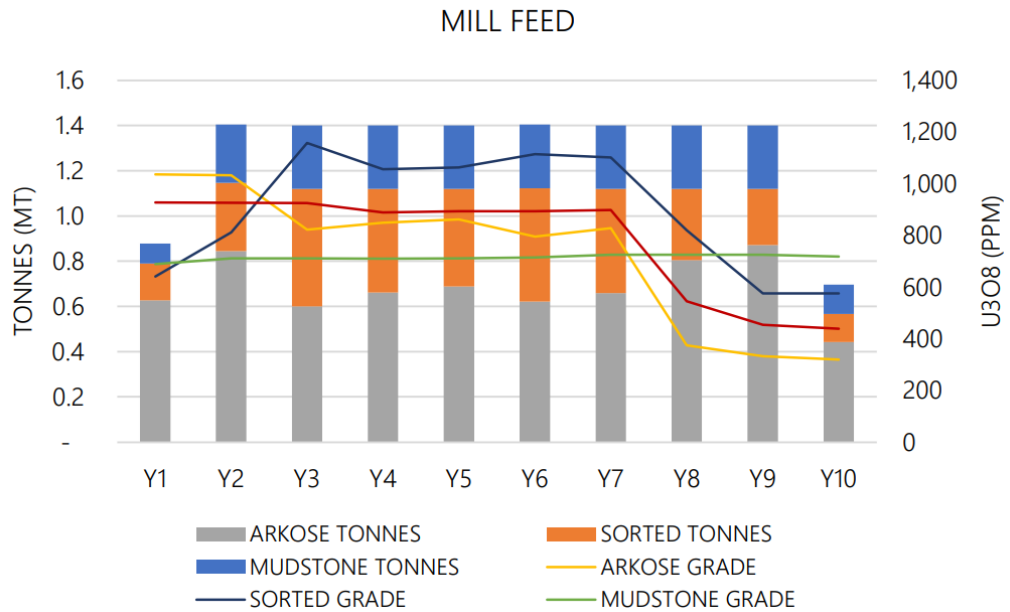
(100% Basis)	SCOPING	DFS	Petra	Comments
Mine life	8-14 Yrs	10 Yrs	12.5 Yrs	We assume 2.5 years additional production
Crusher Feed		18.4Mt	25.4mt	
Crushed Grade		609ppm	609ppm	
LOM Mill Feed	9.6-18.4Mt	12.8Mt	16.3Mt	
LOM Mill grade	679-898ppm	792ppm	792ppm	Mill feed grade is lower than the 880ppm we previously estimated when all feed was assumed to be sorted (Figure 2)
Grade Uplift	NA	30%	30%	
Metallurgical Recovery	86.7%	86.7%	86.5%	We ramp up to 85.5% over 18 months
LOM production	16.4-23.8Mlbs	19.3Mlbs	21.7Mlbs	
Avg annual production	1.8-2.3Mlbs	2.0 Mlbs	2.0 Mlbs	Production averages 2.4Mlbs pa during the first 7 years.
C1 Steady state (Yrs 2-6) Avg.	US\$32.06-32.75/lb	US\$29.1/lb	US\$29.1/lb	We have adopted LOT DFS operating costs
AISC Steady state (Yrs 2-6)	US\$39.07-39.83/lb	US\$36.2/lb	US\$36.2/lb	We have adopted LOT DFS sustaining capital forecasts
Re-start capex	US\$50.2m	US\$87.8m	US\$87.8m	
Pre-Production capex	NA	US\$11.5m	US\$11.5m	Supply chain difficulties now suggests significant initial reagent stocks etc will need to be established prior to production
Funding	NA	NA	A\$130M equity & A\$40m debt	We have increased our assumed capex to A\$130m (prev. A\$125m) and assume 100% equity funding at A\$0.30/sh (prev A\$0.40/share) with debt funding (A\$40m) secured for working capital
First production	Jun.H 2024	Jun.H 2024	Jun.H 2024	We now assume first production in JunH.24 following the wet season.
U <sub>3</sub> O <sub>8</sub> Price assumptions	NA	US\$75/lb	US\$85/lb	We continue to see a question mark over Russian supply (conversion and enrichment) as a structural change for the industry
Valuation (NPV <sub>10</sub> )	NA	NA	A\$750M	

Source: Petra Capital assumptions

The DFS study envisages average annual production of 2.0Mlbs during steady state production, below the 2.4Mlbs we modelled when assuming all feed would be sorted; Figure 2 outlines the new feed sources and grade.

Despite lower average annual production, lower cost inputs result in average C1 cash costs come in slightly below our expectation at US\$30.1/lb LOM and US\$29.1/lb during the first seven years.

**Figure 2: Sorting spread over the entire LOM, but applied in a targeted manner**



Source: Company reports

### Mine Development Agreement still pending

LOT had targeted finalisation the Malawi Mine Development Agreement for Kayelekera in parallel with the DFS. The current project timeline shows that this is now expected to be finalised over coming months.

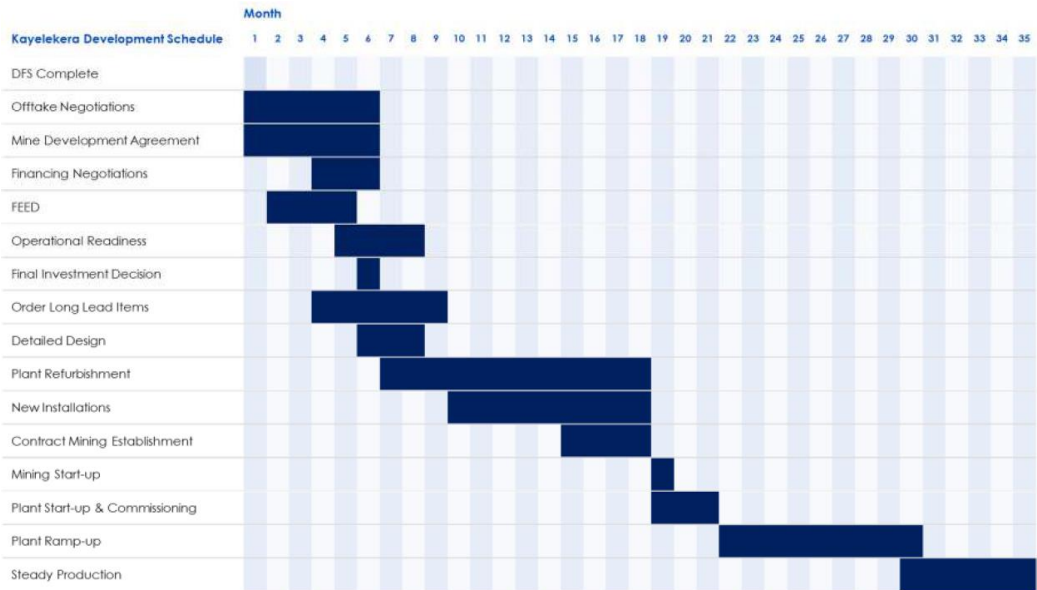
In the absence of a formal agreement, we continue to assume that LOT achieves conditions under its Mine Development Agreement broadly the same as those granted to PDN when it initially developed and operated the Kayelekera project (e.g. royalty of 3% rather than the default 5% rate).

### Returning to the official timeline

LOT's timeline for the re-start of Kayelekera includes six months for financing and offtake negotiations following completion of the re-start DFS. A Final Investment Decision (FID) is expected at the end of 2022, with first production expected in the JunH. '24. We had accelerated this in our previous modelling with the expectation uranium price strength would enable LOT to move straight from DFS to equity financing. Given the pause in uranium pricing seen in both the spot and long-term markets, we have reverted to the Company's expected development timeline (Figure 3). We assume restart capex is equity funded, which should reduce the usual timeline required for debt financing.

We do note that LOT state that the Final Investment Decision (FID) will not be made" until an appropriate uranium price is reached."

**Figure 3: Project timeline**

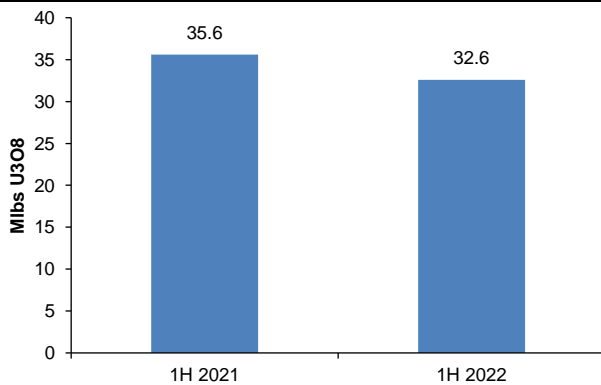


Source: Petra Capital assumptions

**Long-term contract market stronger than spot in 2022**

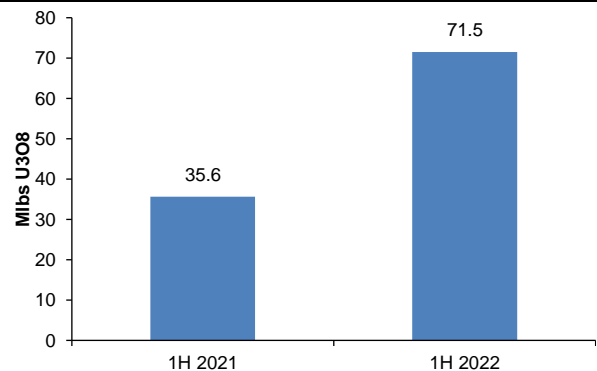
In the first half of 2022 traded uranium volumes have been higher in the long-term contract market than in the spot market, and 2022 volumes in the long-term market are well above 2021 levels to this point (Figure 4 & Figure 5).

**Figure 4: Spot volumes lower in 1H 2022**



Source: Kazatomprom, Petra Capital

**Figure 5: Long-term volumes higher**



Source: Kazatomprom, Petra Capital

Russia’s invasion of Ukraine has seen utilities focus efforts on securing Western Conversion and Enrichment services over and above securing the U<sub>3</sub>O<sub>8</sub> these services will ultimately be applied to. As a result, long-term contracting volumes have paused, as have prices in both the long-term (US\$51.50/lb) and spot markets (US\$47.75/lb).

## Summary of Changes

The Company has described early rare earths exploration results as inconclusive, with high grade rare earth mineralisation appearing patchy. While more work is being undertaken, we have removed our previous nominal A\$10m valuation for rare earth exploration upside.

We have largely adopted the DFS physicals, capex and operating costs, but assume a modest life extension with an additional 2.5 years of operation (12.5 years total). Minor adjustments to timing of first production and lower annual output due to lower feed grade, have reduced our valuation for the Kayelekera project to A\$750m (prev. A\$779.2m).

We now assume 100% equity funding of restart/pre-production capex is pursued, allowing for A\$130m equity at A\$0.30/sh (prev. A\$125m at A\$0.40/sh). A further A\$40m debt is assumed to cover working capital. These changes plus the additional equity dilution reduces our price target by 12% to A\$0.51/sh (prev. A\$0.58/sh).

FY24F earnings are lower due to the later assumed start-up at Kayelekera, with operations now expected to start post the wet season in April 2024 (previous early 2024).

**Figure 6: Summary of changes**

		FY22F			FY23F			FY24F		
		New	Old	% var	New	Old	% var	New	Old	% var
Saleable Production	Mlbs							<b>0.5</b>	<b>1.8</b>	-74%
<b>Revenue</b>	A\$m	<b>2.3</b>	2.3	0%	<b>0.0</b>	0.0		<b>47</b>	178	-74%
<b>EBITDA</b>	A\$m	<b>-9.9</b>	-9.8	1%	<b>-6.6</b>	-6.5	2%	<b>18.6</b>	102.0	-82%
<b>NPAT</b>	A\$m	<b>-9.5</b>	-9.6	-1%	<b>-5.4</b>	-6.0	-11%	<b>10.2</b>	82.2	-88%
<b>EPS</b>	cps	<b>NA</b>	NA		<b>NA</b>	NA		<b>0.3</b>	4.9	-94%
<b>NPV/sh</b>	A\$/sh	0.51	0.58	-12%						
<b>Valuation</b>	A\$/sh	872	913	-4%						
<b>Target</b>	<b>A\$/sh</b>	<b>0.51</b>	<b>0.58</b>	<b>-12%</b>						

Source: Petra Capital


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