

Lotus Resources Ltd (LOT)

Rating: Buy | Risk: High | Price Target: \$0.35

Upgrade to BUY – Kayelekera likely to be the next uranium restart announcement

Key Information

Current Price (\$ps)	0.23
12m Target Price (\$ps)	0.35
52 Week Range (\$ps)	0.18 - 0.45
Target Price Upside (%)	50.2%
TSR (%)	50.2%
Reporting Currency	AUD
Market Cap (\$m)	277
Sector	Materials
Avg Daily Volume (m)	0.9
ASX 200 Weight (%)	0%

Fundamentals

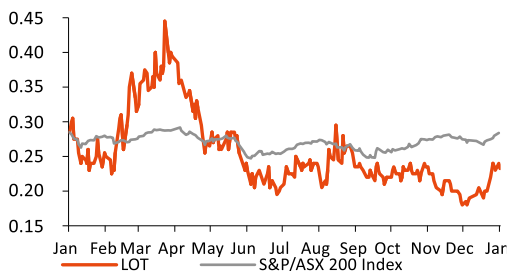
YE 30 Jun (AUD)	FY22A	FY23E	FY24E	FY25E
Sales (\$m)	0	0	0	159
NPAT (\$m)	(12)	(5)	(13)	71
EPS (cps)	(1.1)	(0.4)	(0.8)	4.4
EPS Growth (%)	(89.5%)	68.1%	nm	643.6%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

Ratios

YE 30 Jun	FY22A	FY23E	FY24E	FY25E
P/E (x)	(19.4)	(65.1)	(28.5)	5.2
EV/EBITDA (x)	(22.2)	(52.0)	(50.9)	2.7
Div Yield (%)	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	25.8%	(4.6%)	(5.2%)	(18.0%)
Absolute (%)	29.2%	(1.1%)	5.7%	(18.4%)
Benchmark (%)	3.4%	3.5%	10.9%	(0.4%)



Price performance indexed to 100

Source: FactSet

Major Shareholders

Davey Holdings & Management	11.2%
Sachem Cove	7.0%
Arnott Capital	6.0%
Terra Capital	6.0%

Event

We upgrade our recommendation on Lotus Resources (LOT) to BUY and our price target from \$0.25 to \$0.35. Fundamentals in the uranium market continue to improve and activity levels in the term contract market are increasing. Following Paladin (Langer Heinrich), Boss (Honeymoon) and Peninsula (Lance) in 2022, we expect Lotus to be the next company to announce a restart of its Kayelekera Uranium Project in Malawi (LOT 85%).

The restart DFS confirmed Kayelekera as one of the lowest capital cost uranium projects globally whilst also having the ability to quickly recommence production (15 months development) once a Final Investment Decision has been made. We think it is likely that FID is made in 1H23, pending offtake negotiations with various nuclear energy utilities. Lotus has been clear that it will not restart until and unless the uranium price environment is supportive.

Highlights

- Lotus Resources is intending to re-start operations of the fully permitted Kayelekera project in Malawi. The Kayelekera project was put on care and maintenance by Paladin in 2014 after five years of operations, 10.9M lb of U₃O₈ production, and ~US\$200m of capex. Peak production occurred in 2013 at ~3.0Mlbs U₃O₈.
- LOT acquired 65% equity in Kayelekera from Paladin in March 2020 and bought out partner Grant Davey (LOT Director) in August 2021 to increase its stake to 85%. LOT is free carrying its project partner The Government of Malawi (15%).
- LOT released a Definitive Feasibility Study in 2022 which provides low-cost development pathway for the re-start of Kayelekera. Key features of the DFS include
 - Open cut mine pit requiring low total initial capital expenditure of US\$88m due to Kayelekera's existing infrastructure.
 - A quick development period for refurbishment for a re-start; approximately 15 months to production from a Final Investment Decision.
 - 10-year life-of-mine production of 19Mlbs U₃O₈ at an average head grade of 790ppm and production rate of 2.4Mlb/yr (av. LoM).
 - Cash costs of US\$29.1/lb and all-in sustaining costs of US\$36.2/lb for the first seven years of production.
- Lotus is planning to make significant improvements to Kayelekera including the use of ore sorting, connection to the national grid, a new acid plant with associated co-generation plant and nanofiltration to improve acid recovery. These improvements will result in lower operating costs, and we have upgraded our earnings forecasts (~40% in FY25 and FY26) to reflect these.
- We carry a notional A\$100m in 'Exploration / Other' in our company valuation to account for the potential uranium exploration upside at the nearby Livingstonia deposit and rare earth oxide upside at Milenje Hills. In our view exploration success at Livingstonia and potential further opportunities around the current Kayelekera resource demonstrate potential to extend the LOM past 10 years (DFS).
- The balance sheet is debt free and carries a cash balance of A\$25.5m (Sep22q).

Recommendation

We upgrade our recommendation to Buy and our price target to \$0.35ps (from \$0.25ps). We have updated our company financial model to be in line with the improvements outlined in the 2022 DFS.

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Lotus Resources Ltd

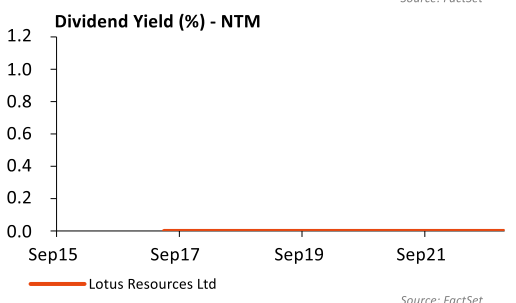
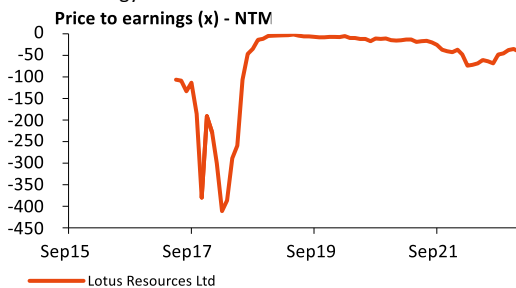
**Materials
Materials**

FactSet: LOT-AU / Bloomberg: LOT AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.23
Target Price (\$ps)	0.35
52 Week Range (\$ps)	0.18 - 0.45
Shares on Issue (m)	1,202
Market Cap (\$m)	277
Enterprise Value (\$m)	260
TSR (%)	50.2%

Valuation NPV	Data
Valuation (\$m)	0
Valuation per share (cps) (AUD)	0.00

Lotus Resources is looking to re-start operations of the fully permitted Kayelekera Uranium Project in Malawi (LOT 85%). The company recently completed a Definitive Feasibility Study (DFS) for the re-start of Kayelekera. The Restart DFS has confirmed Kayelekera as one of the lowest capital cost uranium projects globally whilst also having the ability to quickly recommence production (15 months development) once a Final Investment Decision (FID) has been made. The company believes it is possible for an FID to be made as early as this half, pending offtake negotiations with various nuclear energy utilities.



Financial Year End: 30 June

Investment Summary (AUD)	FY21A	FY22A	FY23E	FY24E	FY25E
EPS (Reported) (cps)	(0.6)	(1.1)	(0.4)	(0.8)	4.4
EPS (Underlying) (cps)	(0.6)	(1.1)	(0.4)	(0.8)	4.4
EPS (Underlying) Growth (%)	27.9%	(89.5%)	68.1%	nm	643.6%
PE (Underlying) (x)	(32.5)	(19.4)	(65.1)	(28.5)	5.2
EV / EBIT (x)	(44.1)	(20.1)	(52.0)	(50.9)	3.0
EV / EBITDA (x)	(44.1)	(22.2)	(52.0)	(50.9)	2.7
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	(4.2%)	(4.7%)	(11.1%)	(22.3%)	13.1%
Profit and Loss (AUD) (m)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	0	0	0	0	159
Other Operating Income	0	3	0	0	0
EBITDA	(6)	(12)	(5)	(5)	95
EBITDA Margin (%)	nm	nm	nm	nm	59.7%
Depreciation & Amortisation	0	(1)	0	0	(7)
EBIT	(5.9)	(13.0)	(5.0)	(5.1)	87.9
EBIT Margin (%)	nm	nm	nm	nm	55.4%
Net Interest	0	0	0	(8)	(4)
Pretax Profit	(6)	(13)	(5)	(13)	84
Minorities	(1)	(1)	0	0	13
NPAT Underlying	(5)	(12)	(5)	(13)	71
Significant Items	(1)	0	0	0	0
NPAT Reported	(4)	(12)	(5)	(13)	71
Cashflow (AUD) (m)	FY21A	FY22A	FY23E	FY24E	FY25E
EBIT	(6)	(13)	(5)	(5)	88
Tax Paid	0	0	0	0	0
Net Interest	0	(0)	0	(8)	(4)
Change in Working Capital	0	0	(2)	0	(10)
Depreciation & Amortisation	0	1	0	0	7
Other	(1)	2	0	0	0
Operating Cashflow	(7)	(10)	(7)	(13)	81
Capex	0	(1)	(29)	(70)	(32)
Acquisitions and Investments	0	0	0	0	0
Disposal of Fixed Assets/Investments	0	2	0	0	0
Other	(1)	(3)	(10)	(3)	(3)
Investing Cashflow	(1)	(2)	(39)	(73)	(35)
Free Cashflow	(7)	(11)	(36)	(83)	49
Equity Raised / Bought Back	21	1	70	0	0
Dividends Paid	0	0	0	0	0
Change in Debt	0	0	80	0	(20)
Other	0	0	0	0	0
Financing Cashflow	21	1	150	0	(20)
Exchange Rate Effect	(0)	1	0	0	0
Net Change in Cash	13	(10)	104	(86)	26
Balance Sheet (AUD) (m)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	15	5	109	23	50
Accounts Receivable	0	0	0	0	0
Inventory	0	0	0	0	0
Other Current Assets	1	1	1	1	1
PPE	0	0	26	89	111
Total Assets	89	67	203	190	244
Accounts Payable	1	2	0	0	0
Short Term Debt	0	0	0	20	20
Long Term Debt	0	0	80	60	40
Total Liabilities	67	52	123	123	103
Total Shareholder Equity	22	15	80	67	150
Ratios	FY21A	FY22A	FY23E	FY24E	FY25E
ROE (%)	(33.9%)	(63.8%)	(10.4%)	(17.7%)	69.2%
Gearing (%)	(204.7%)	(45.7%)	(56.2%)	45.7%	7.0%
Net Debt / EBITDA (x)	2.5	0.4	5.8	(11.1)	0.1
Price to Book (x)	8.1	17.6	4.7	5.6	2.5

Lotus Resources financial summary

Profit & Loss						Company Information					
	FY22	FY23f	FY24f	FY25f	FY26f						
Revenue	0.0	0.0	0.0	158.6	283.8	Financial Year End Date	30-Jun				
Expenses	-11.7	-5.0	-5.1	-63.9	-110.6	Share Price	0.230				
Underlying EBITDA	-11.7	-5.0	-5.1	94.7	173.2	Market Capitalisation	373				
Depreciation & Amort	-1.2	0.0	0.0	-6.8	-12.0	Valuation	0.35				
Underlying EBIT	-13.0	-5.0	-5.1	87.9	161.2	Recommendation	Buy				
Net Interest	0.0	0.0	-8.0	-4.0	-3.0						
Profit Before Tax	-13.0	-5.0	-13.1	83.9	158.2						
Tax	0.0	0.0	0.0	0.0	0.0						
NPAT (Underlying)	-13.0	-5.0	-13.1	83.9	158.2						
Exceptional items	0.0	0.0	0.0	0.0	0.0						
NPAT (reported)	-13.0	-5.0	-13.1	83.9	158.2						
Minorities	-1.0	0.0	0.0	12.6	23.7						
Attributable NPAT	-12.0	-5.0	-13.1	71.3	134.5						
Balance Sheet						Per Share Data (c)					
	FY22	FY23f	FY24f	FY25f	FY26f		FY22	FY23f	FY24f	FY25f	FY26f
Cash (inc. restricted)	4.9	109.0	23.2	49.6	171.3	Shares (m)	1,207	1,622	1,622	1,622	1,622
Net Receivables	0.0	0.0	0.0	0.0	0.0	Normalised EPS	-1.1	-0.4	-0.8	4.4	8.3
Other	0.9	0.9	0.9	0.9	0.9	Dividends	0.0	0.0	0.0	0.0	0.5
Current Assets	5.8	109.9	24.1	50.5	172.2	Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	2.2%
Property, Plant & Equipment	0.0	26.5	89.4	111.3	107.3	Book Value	0.01	0.05	0.04	0.09	0.19
Other	60.8	66.5	76.2	91.8	112.3	P/E (x)	-14.0	-44.3	-20.3	3.9	2.1
Non Current Assets	60.8	92.9	165.6	203.1	219.6	EV/EBITDA (x)	-0.2	-0.5	-0.5	0.0	0.0
Total Assets	66.6	202.8	189.7	253.6	391.8						
Trade Creditors	1.7	0.0	0.0	0.0	0.0	Fully Diluted Valuation					
Borrowings	0.0	0.0	20.0	20.0	20.0		US\$m	A\$m	A\$ps		
Other	7.4	7.4	7.4	7.4	7.4	Kayelekera	300	400	0.25		
Current Liabilities	9.1	7.4	27.4	27.4	27.4	Net cash / (debt)	4	5	0.00		
Borrowings	0.0	80.0	60.0	40.0	20.0	Exploration upside	75	100	0.06		
Other	42.7	35.7	35.7	35.7	35.7	Cash from options + raise	52	70	0.04		
Non Current Liabilities	42.7	115.7	95.7	75.7	55.7	Corporate costs	-11	-15	-0.01		
Net Assets	14.8	79.7	66.6	150.5	308.7	Total Valuation	420	560	0.35		
Shareholder Capital	114.9	184.9	184.9	184.9	184.9	Assumptions					
Retained earnings	-68.4	-73.4	-86.5	-15.2	119.3		FY22	FY23f	FY24f	FY25f	FY26f
Minorities/others	-31.8	-31.8	-31.8	-19.2	4.6	Prices					
Total Equity	14.8	79.7	66.6	150.5	308.7	A\$/US\$	0.72	0.68	0.72	0.74	0.74
						U ₃ O ₈ (US\$/lb)	46	57	84	85	87
Cash Flow						Operating Metrics					
	FY22	FY23f	FY24f	FY25f	FY26f		FY22	FY23f	FY24f	FY25f	FY26f
Receipts	0.2	0.0	0.0	158.6	283.8	Ore processed (ktpa)	0	0	0	800	1400
Payments	-10.1	-5.0	-5.1	-63.9	-110.6	Average grade (ppm)	0	0	0	900	900
Other Operating Cash Flow	-0.1	-1.7	-8.0	-13.7	-19.9	U ₃ O ₈ sold (Mlb)	0.0	0.0	0.0	1.4	2.4
Operating Cash Flow	-10.0	-6.7	-13.1	81.0	153.3	C1 cost (US\$/lb)	0	0	0	31	32
Capex	-1.0	-29.4	-69.9	-32.0	-8.8	Average price (A\$/lb)	n/a	n/a	n/a	115	117
Other Investing Cash Flow	-0.6	-9.7	-2.7	-2.7	-2.7	Average cost (A\$/lb)	n/a	n/a	n/a	43	44
Investing Cash Flow	-1.6	-39.1	-72.6	-34.7	-11.5	Average margin (A\$/lb)	n/a	n/a	n/a	72	74
Net Equity raised	1.1	70.0	0.0	0.0	0.0	Financial metrics (%)					
Dividends Paid	0.0	0.0	0.0	0.0	0.0		FY22	FY23f	FY24f	FY25f	FY26f
Net Borrowings	0.0	80.0	0.0	-20.0	-20.0	EBITDA margin	0.0%	0.0%	0.0%	59.7%	61.0%
Financing Cash flow	1.1	150.0	0.0	-20.0	-20.0	EBIT margin	0.0%	0.0%	0.0%	55.4%	56.8%
Total Cash Change	-10.5	104.1	-85.7	26.4	121.8	ROIC	0.0%	0.0%	0.0%	38.2%	63.6%
						Return on Assets	-16.7%	-3.7%	-6.7%	37.8%	49.0%
						Return on Equity	-69.8%	-10.6%	-17.9%	77.3%	68.9%
Balance Sheet Metrics						Balance sheet metrics					
	FY22	FY23f	FY24f	FY25f	FY26f		FY22	FY23f	FY24f	FY25f	FY26f
Net Debt (m)	-5	-29	57	10	-131	Net Debt (m)	-5	-29	57	10	-131
ND / ND+E	0.0%	0.0%	46.0%	6.5%	0.0%	ND / ND+E	0.0%	0.0%	46.0%	6.5%	0.0%

Source: Company reports, Shaw and Partners analysis

Lotus Resources – plans to restart Kayelekera

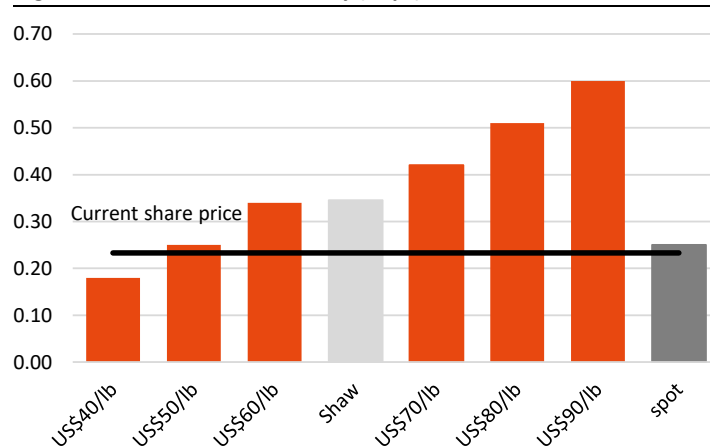
- Lotus Resources is looking to re-start operations of the fully permitted Kayelekera project in Malawi (LOT 85%). A low upfront capital requirement of ~US\$88m is appealing.
- The Kayelekera project was put on care and maintenance by Paladin in 2014 after five years of operations, 10.9M lb of U₃O₈ production, and ~US\$200m of capex. Peak production occurred in 2013 at ~3.0Mlbs U₃O₈.
- LOT acquired 65% equity in Kayelekera from Paladin in March 2020 and bought out partner Grant Davey (LOT Director) in August 2021 to increase its stake to 85%. LOT is free carrying its project partner The Government of Malawi (15%)..
- LOT released a Definitive Feasibility Study in 2022 which provides low-cost development pathway for the re-start of Kayelekera. Key features of the DFS include:
 - Open cut mine pit requiring low total initial capital expenditure of US\$88m due to Kayelekera’s existing infrastructure.
 - A quick development period for refurbishment for a re-start; approximately 15 months to production from a Final Investment Decision.
 - 10-year life-of-mine production of 19Mlbs U₃O₈ at an average head grade of 790ppm and production rate of 2.4Mlb/yr (av. LoM).
 - Cash costs of US\$29.1/lb and all-in sustaining costs of US\$36.2/lb for the first seven years of production.
- Lotus is planning significant improvements to Kayelekera including the use of ore sorting, connection to the national grid, a new acid plant with associated co-generation plant and nanofiltration to improve acid recovery. These improvements will result in lower operating costs and we have upgraded our earnings forecasts (~40% in FY25 and FY26) to reflect these.

Figure 1: LOT fully diluted valuation

Lotus Resources Valuation - diluted	US\$m	A\$m	A\$ps
Kayelekera	300	400	0.25
Net cash / (debt)	4	5	0.00
Exploration upside	75	100	0.06
Cash from options + raise	52	70	0.04
Corporate costs	-11	-15	-0.01
Total Valuation	420	560	0.35

Source: Company reports, Shaw and Partners analysis

Figure 2: LOT valuation sensitivity (A\$ps)



Source: Company reports, Shaw and Partners analysis

Figure 3: Earnings revisions

	2023f			2024f			2025f			2026f		
	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %
Revenue (A\$m)	0	0	n/a	0	0	n/a	159	159	n/a	284	284	n/a
EBITDA (A\$m)	-5	-5	0%	-5	-5	0%	95	70	36%	173	128	35%
EBIT (A\$m)	-5	-5	0%	-5	-5	0%	88	63	39%	161	117	37%
NPAT (A\$m)	-5	-5	0%	-13	-13	0%	84	59	41%	158	114	38%
EPS (Acps)	0	0	0%	-1	-1	0%	4	3	41%	8	6	38%

Source: Company reports, Shaw and Partners

Kayelekera overview

The Kayelekera sandstone uranium deposit is located in northern Malawi, southern Africa, 52km west (by road) of the township of Karonga. The resource was discovered by the Central Electricity Generating Board of Great Britain (CEGB) in the early 1980s.

In 1998 Paladin acquired a 90% interest in Kayelekera through a Joint Venture with Balmain Resources, which then held exploration rights over the project area. In July 2005 Paladin acquired the remaining 10% interest held by Balmain.

After completing the Development Agreement with the Malawi Government, the BFS and a full Environmental Impact Assessment, a mining licence was granted in April 2007.

Construction started in 2007 and open pit mining commencing in 2008. In July 2009, Paladin issued 15% equity in the project to the Government of Malawi.

Peak production in 2013 was ~3.0Mlb U₃O₈. In 2014 - after five years of operations, 10.9Mlbs of U₃O₈ production, and ~US\$200m of capex - the mine was put on care and maintenance. Paladin noted difficult uranium market conditions as the primary reason for mine closure.

In March 2020, Lotus Resources (formerly Hylea Metals) and Kayelekera Resources (an entity controlled by Grant Davey) acquired Paladin's 85% stake (65:20) in the project in a vehicle called Lily Resources. The asset was consolidated in August 2021 to be 85% owned by Lotus Resources via the issuance of 226m shares to Grant Davey's vehicle.

Figure 4: Kayelekera – project location & associated exploration licences

The tenement package is large, at 157km², with significant exploration potential, and hosts a high-grade resource with an existing open pit mine.



Source: Company reports

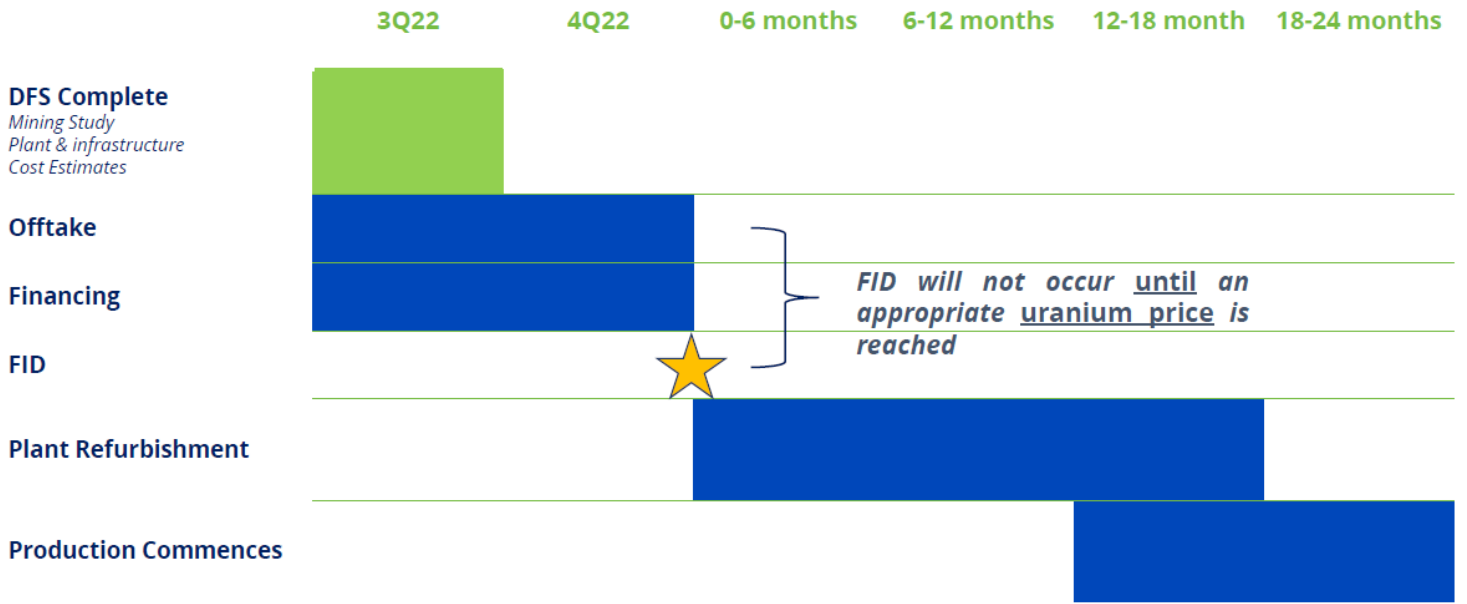
Figure 5: The Kayelekera mine and associated infrastructure

Peak production at Kayelekera was in 2013 at ~3.0Mlb U₃O₈. In 2014 - after five years of operations, 10.9Mlbs of U₃O₈ production, and ~US\$200m of capex - the mine was put on care and maintenance. The mine and infrastructure remain in good condition.



Source: Company reports

Figure 6: Pathway to recommence production at Kayelekera



Source: Company reports

2022 Definitive Feasibility Study (DFS)

LOT recently released a Definitive Feasibility Restart Study, which builds on the October 2020 Scoping Study and incorporates several years of additional technical work. It provides a low-cost development pathway for the re-start of Kayelekera, an open cut mine pit which requires total initial capital expenditure of US\$88m to refurbish.

The DFS outlines a development scenario for a quick re-start (15 months to production from FID) for a total 10-year Life of Mine (LOM) with production of 19Mlbs U₃O₈ (vs a total Resources of 51Mlbs, Figure 7) at an average annual production rate of 2.0Mlbs.

The first seven years of production are from higher grade ore before production is sourced from stockpiles in the final three years. The first seven years of operation assume All-in Sustaining Costs of US\$36/lb and an average production of 2.4Mlbs U₃O₈ per annum.

Despite the current high inflation environment, operating costs are slightly lower in the DFS compared to the historical operations and 2020 Re-Start Scoping Study due to:

- Increased feed grades from ore sorting,
- Lower power costs from grid power; and
- Improved acid utilisation from nanofiltration.

In our view exploration success at Livingstonia and potential further opportunities at Chilumba and around the current Kayelekera resource demonstrate potential to extend the LOM past the 10 years.

Figure 7: Lotus Mineral Resource Inventory – June 2022

Project	Category	Mt	Grade (U ₃ O ₈ ppm)	U ₃ O ₈ (M kg)	U ₃ O ₈ (M lbs)
Kayelekera	Measured	0.9	830	0.7	1.6
Kayelekera	Measured – RoM Stockpile ⁹	1.6	760	1.2	2.6
Kayelekera	Indicated	29.3	510	15.1	33.2
Kayelekera	Inferred	8.3	410	3.4	7.4
Kayelekera	Total	40.1	510	20.4	44.8
Kayelekera	Inferred – LG Stockpiles ¹⁰	2.4	290	0.7	1.5
Kayelekera	Total - Kayelekera	42.5	500	21.1	46.3
Livingstonia	Inferred	6.9	320	2.2	4.8
Total	All uranium resources	49.4	475	23.3	51.1

Source: Company reports

Figure 8: Ore Reserve, 100% basis (based on a 200ppm cut-off grade for arkose and a 390ppm cut-off grade for mudstone).

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

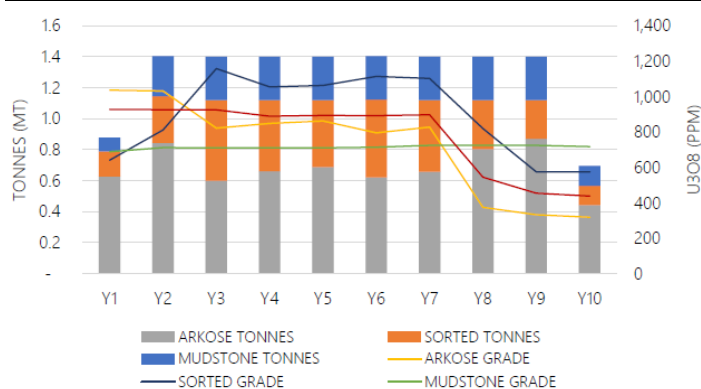
Source: Company reports

Figure 9: Key DFS 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

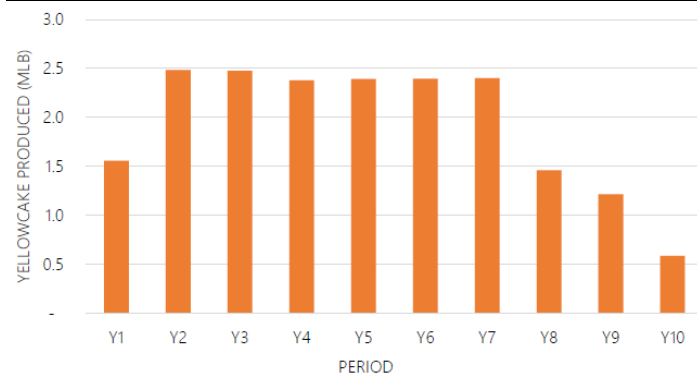
Source: Company reports

Figure 10: Mill Feed – quantity and uranium grade by material type



Source: Company reports

Figure 11: Yellowcake output (MLb)



Source: Company reports

Kayelekera financial modelling assumptions

We have upgraded our financial model to reflect the operating improvements Lotus is planning to make at Kayelekera (e.g. ore sorting, acid costs) and we are broadly in line with the DFS parameters.

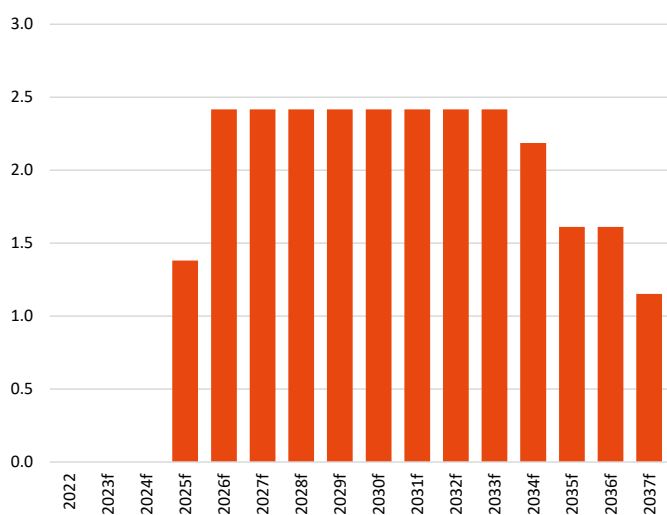
Figure 12: Kayelekera financial model (A\$m)

We model first production in FY25, approximately 15-18 months after a project sanction in mid-FY23.

Kayelekera (A\$m)	2020	2021	2022	2023f	2024f	2025f	2026f	2027f	2028f	2029f	2030f	2031f	2032f
Ore processed (kt)						800	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Grade of mill feed (ppm)						900	900	900	900	900	900	900	900
U3O8 (Mlb) - sold						1.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Revenue						159	284	261	243	248	254	259	265
Expenses						59	105	106	107	110	113	115	156
EBITDA						100	179	155	135	138	141	144	110
D&A						7	12	12	12	12	12	12	12
EBIT						93	167	143	123	126	129	132	98
Net Operating Assets	12	12	12	41	111	136	133	130	127	140	138	135	130
Capex	0	0	0	29	70	32	9	9	9	25	10	10	7
EBITDA Margin (%)						63%	63%	59%	56%	56%	56%	55%	41%
EBIT / Assets (%)						68%	125%	110%	97%	90%	94%	97%	75%
Realised U3O8 (US\$/lb)	28	31	46	57	84	85	87	80	74	76	78	79	81
AUD/USD	0.67	0.75	0.72	0.68	0.72	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74
Revenue (A\$/lb)						115	117	108	100	103	105	107	110
Expenses (A\$/lb)						43	44	44	44	46	47	48	64
EBITDA (A\$/lb)						72	74	64	56	57	58	60	45
D&A (A\$/lb)						5	5	5	5	5	5	5	5
EBIT (A\$/lb)						67	69	59	51	52	53	55	40
Nominal Tax @ 27.5%	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-cash inventory movement	0	0	0	0	0	-10	-17	-17	-17	-17	-17	-17	24
Cash Flow	0	0	0	-29	-70	58	153	129	109	96	114	117	127

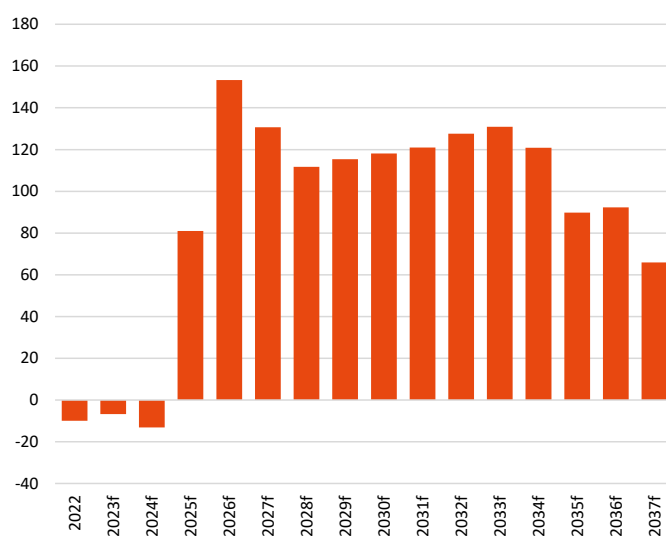
Source: Company reports, Shaw analysis

Figure 13: Uranium production (Mlbs)



Source: Company reports, Shaw forecasts

Figure 14: Operating cash flow (A\$m)



Source: Company reports, Shaw forecasts

Figure 15: LOT Cash Flow (A\$m)

CASH FLOW (A\$m)	2020	2021	2022	2023f	2024f	2025f	2026f	2027f	2028f	2029f	2030f	2031f	2032f
Operating activities													
Receipts from customers	0	0	0	0	0	159	284	261	243	248	254	259	265
Payments to suppliers and employe	-4	-7	-10	-5	-5	-64	-111	-112	-113	-116	-119	-121	-162
Income taxes paid	0	0	0	0	0	0	0	0	0	0	0	0	0
Working capital movement	0	0	0	-2	0	-10	-17	-17	-17	-17	-17	-17	24
Other	0	0	0	0	-8	-4	-3	-2	-1	0	0	0	0
Net cash flow from operating activities	-4	-7	-10	-7	-13	81	153	131	112	115	118	121	128
Investing activities													
Payments for PPE	0	0	-1	-29	-70	-32	-9	-9	-9	-25	-10	-10	-7
Other	10	-1	-1	-10	-3	-3	-3	-3	-3	-3	-3	0	0
Net cash flow from investing activities	10	-1	-2	-39	-73	-35	-12	-12	-12	-27	-12	-10	-7
Free cash flow	-4	-7	-11	-36	-83	49	144	122	103	91	109	111	121
Financing activities													
Net proceeds from issue of shares	10	21	1	70	0	0	0	0	0	0	0	0	0
Proceeds from borrowings	0	0	0	80	0	0	0	0	0	0	0	0	0
Repayments of borrowings	0	0	0	0	0	-20	-20	-20	-20	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	-28	-57	-50	-52	-54	-47
Other	0	0	0	0	0	0	0	0	0	0	0	0	0
Net cash flow from financing activities	10	21	1	150	0	-20	-20	-48	-77	-50	-52	-54	-47
Net increase/(decrease) in cash	16	13	-10	104	-86	26	122	71	23	38	54	58	74

Source: Company reports, Shaw analysis

Figure 16: LOT Balance Sheet (A\$m)

In our base case modelling we assume that the company will recapitalise in FY23, shortly before taking a Final Investment Decision. We assume the company raises an additional A\$45m equity at a share price of A\$0.20ps (on top of A\$25m raised in Sep-22) and ~A\$80m (US\$60m) of debt (project finance) to fund the restart. We have not modelled any prepayments – this may be an option for the company given Kayelekera will be one of the first re-start operations and uranium markets have substantially tightened over the past 12 months.

BALANCE SHEET (A\$m)	2020	2021	2022	2023f	2024f	2025f	2026f	2027f	2028f	2029f	2030f	2031f	2032f
Cash and cash equivalents	16	15	5	109	23	50	171	243	266	303	357	415	489
Trade and other receivables	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	1	1	1	1	1	1	1	1	1	1	1	1	1
Total current assets	17	15	6	110	24	50	172	244	267	304	358	416	490
Property, plant and equipment	0	0	0	26	89	111	107	103	100	110	107	104	97
Exploration and evaluation expendi	65	60	46	49	52	54	57	60	63	65	68	68	68
Other	0	14	15	17	24	37	55	73	91	110	128	146	122
Total non-current assets	65	73	61	93	166	203	220	236	253	286	303	317	288
TOTAL ASSETS	82	89	67	203	190	254	392	480	520	590	661	733	778
Trade and other payables	1	1	2	0	0	0	0	0	0	0	0	0	0
Other	1	3	7	7	27	27	27	27	7	7	7	7	7
Total current liabilities	3	3	9	7	27	27	27	27	7	7	7	7	7
Deferred tax	0	0	0	0	0	0	0	0	0	0	0	0	0
Borrowings	0	0	0	80	60	40	20	0	0	0	0	0	0
Other	72	63	43	36	36	36	36	36	36	36	36	36	36
Total non-current liabilities	72	63	43	116	96	76	56	36	36	36	36	36	36
TOTAL LIABILITIES	75	67	52	123	123	103	83	63	43	43	43	43	43
NET ASSETS	8	22	15	80	67	150	309	417	477	547	618	690	735
Net debt	-16	-15	-5	-29	57	10	-131	-223	-266	-303	-357	-415	-489
Gearing (ND/ND+E %)	0%	0%	0%	0%	46%	6%	0%	0%	0%	0%	0%	0%	0%

Source: Company reports, Shaw analysis

Key risks

As a small mining company broadly exposed to a single commodity and a single asset, we consider an investment in Lotus Resources to be high risk. The key risks include;

- The U₃O₈ market is relatively opaque and difficult to forecast. The actual uranium price may differ substantially from our forecasts.
- Operations for LOT have not yet started and there is a risk that they may be unable to bring Kayelekera to production in line with expectations. Costs may be higher and operations may not be as expected.
- LOT will need to recapitalise to fund the commencement of operations. There is a risk that capital markets are not willing to fund the project.
- LOT is operating in Malawi. According to the World Bank, Malawi is one of the poorest third world countries. Political conditions can change unfavourably for a range of reasons. The economy is heavily dependent on agriculture and it is vulnerable to external shocks, particularly climatic shocks. In addition, we note there are potential geotechnical related risks with the company's Kayelekera project. This is due to the high seismic activity in the area and potential impacts of high rainfall, especially during the care and maintenance period where significant water treatment / management is required. We also note the asset is proximate to the North Rukuru River which feeds into Lake Malawi.
- Forecasting future operating costs has considerable uncertainty. Our forecasts may prove to be too optimistic. If each company's costs are higher than we expect then our cash flow forecasts will be too high.
- Smaller companies carry more significant 'key personnel' risk than larger organisations. If senior management depart it could delay projects or exacerbate operational risks.
- Safe and reliable production from operations once projects are operational. The inability to maintain safe and reliable operations may result in a sustained, unplanned interruption to production and impact the company's licence to operate and financial performance. Production facilities are subject to operating hazards associated with major accident events, cyber-attack, inclement weather and disruption to supply chain, that may result in a loss of uranium (radioactive material) containment, harm to personnel, environmental damage, diminished production, additional costs, and impacts to reputation or brand.

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

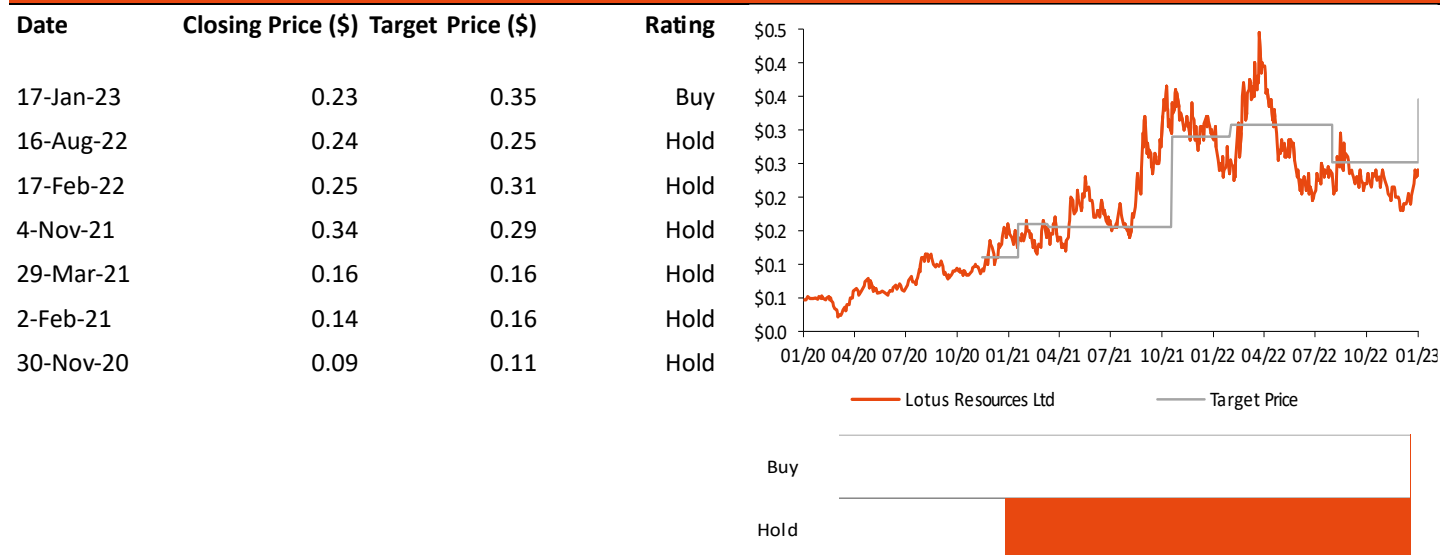
High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

RISK STATEMENT: Where a company is designated as ‘High’ risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	115	88%
Hold	15	12%
Sell	0	0%

History of Investment Rating and Target Price - Lotus Resources Ltd



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