Capital Markets
Canaccord Genuity

28 April 2023

**Estimates Revised**

# Lotus Resources Limited
**Specialty Minerals and Metals**

| Rating | Price Target |
|---|---|
| **SPECULATIVE BUY** | **A$0.36** |
| *unchanged* | *unchanged* |
| **LOT-ASX** | Price **A$0.18** |

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## MarQ'23 report - prices are creeping higher

LOT's Kayelekera Uranium Project (KUP, 85% LOT) in Malawi is one of the shortest development cycle projects available to the uranium market. A market which is increasingly shifting its eyes from supply chain bottlenecks in conversion and enrichment towards new mine supply.

At the recent World Nuclear Fuel Cycle Conference, Jonathon Hinze from UxC predicted that a "net shift of 33-44 Mlbs of U3O8 equivalent is needed given the drop in Russian supplies coupled with increasing western tails assays". With the market already in significant deficit (~30Mlb CGe) something has to give and that, in our view, will lead to significantly higher uranium prices.

We retain our BUY rating and SOTP-based $0.36 price target.

### Uranium prices creeping up

The spot uranium price is up 7% MTD to US$53.95, post what has been described to us as the most bullish WNFC conference in a decade. As overfeeding increases and seasonal contracting commences we believe there will be material upwards pricing pressure on U3O8 in 2H CY24.

With an AISC of US$38/lb LOT and 51.1Mlb of resource LOT is one of the most leveraged uranium plays in our coverage universe.

### Mine Development Agreement progressing

The MDA is a key milestone for KUP. The agreement governs the relationship/obligations between the government and KUP including fiscal terms. A non-binding term sheet has now been progressed with the government of Malawi and UK-based lawyers have been appointed by the government to complete the legal process for the MDA. Our valuation model is predicated on KUP securing similar terms to the MDA that Paladin Energy (PDN-ASX), the previous owner of KUP, had with the government.

Once the MDA is secured we expect the company to ramp up financing negotiations for the US$88mn development.

### Offtake negotiations

LOT continues to engage with potential offtake partners and was invited to participate in a number of requests for proposal (RFPs) for supply contracts in recent months. Discussions are being led by Dr Robert Rich, who has overseen the sale and purchase of more than 60Mlb of uranium during his 30+year career. As a reminder, a total of 10.9Mlbs of uranium has been successfully produced, marketed and delivered from the Kayelekera Project during the period from 2009 to 2014 to conversion facilities located in the United States, Canada and France. The product is well known within the tight-knit uranium community, a fact which should assist marketing, in our view.

### Sunk infrastructure a clear advantage

KUP produced 11Mlbs over its four-year commercial life and benefits from US$200mn in sunk infrastructure which has been left in good condition (est. US$300mn replacement value). As a consequence KUP sits in the lowest quartile for capital intensity (US$88mn for 2.4Mlb p.a.).

LOT's recent DFS reaffirmed the robustness of the restart and, perhaps more importantly, the ability to deliver pounds into the market 15 months post a positive FID.

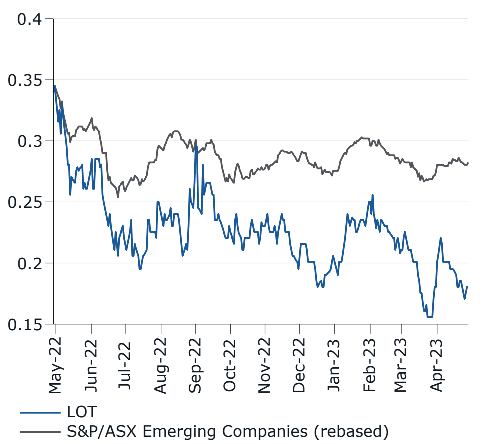
### Keeping a tight rein on costs

LOT ended the MarQ with $17.9mn (excl. $14.7mn in restricted cash) after incurring operating expenditure of $1.2mn and making its final cash payment of $4.5mn for the Kayelekera acquisition.

**Market Data**

| | |
|---|---|
| 52-Week Range (A$) : | 0.14 - 0.46 |
| Market Cap (A$M) : | 245.5 |
| Shares Out. (M) : | 1,327.2 |
| Dividend /Shr (A$) : | 0.00 |
| Dividend Yield (%) : | 0.0 |
| Enterprise Value (A$M) : | 220 |
| NAV /Shr (A$) : | 0.38 |

| FYE Jun | 2022A | 2023E | 2024E | 2025E |
|---|---|---|---|---|
| Sales (A$M) | 0.0 | 0.0 | 0.0 | 69.7↓ |
| *Previous* | - | - | - | *71.2* |
| EBITDA (A$M) | (13.0) | (9.2) | (9.2) | 15.6↓ |
| *Previous* | - | - | - | *18.0* |




Source: FactSet

Priced intraday 28 April 2023

Lotus Resources is focused on restarting the idled Kayelekera Uranium Project (KUP) in Malawi.

**Figure 1: Financial summary**

| FY Jun 30 | 2021 | 2022 | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|
| **PROFIT & LOSS (A$mn)** | | | | | |
| Revenue | 0.0 | 0.0 | 0.0 | 0.0 | 69.7 |
| Operational Costs | 0.0 | 0.0 | 0.0 | 0.0 | -39.5 |
| Royalty | 0.0 | 0.0 | 0.0 | 0.0 | -5.1 |
| Other Income | 0.2 | 2.6 | 0.6 | 0.0 | 0.0 |
| Business Devt & Expl | 0.0 | -4.7 | 0.0 | 0.0 | 0.0 |
| Corporate & Other | -6.1 | -10.8 | -9.8 | -9.2 | -9.6 |
| **EBITDA** | **-5.9** | **-13.0** | **-9.2** | **-9.2** | **15.6** |
| DD&A | 0.0 | 0.0 | 0.0 | 0.0 | -19.8 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **EBIT** | **-5.9** | **-13.0** | **-9.2** | **-9.2** | **-4.2** |
| Net Financing | 0.0 | 0.0 | -0.5 | -1.7 | -9.9 |
| **NPBT** | **-5.9** | **-13.0** | **-9.7** | **-10.9** | **-14.1** |
| Tax | 0.0 | 0.0 | -0.2 | 0.0 | 0.3 |
| **Normalised NPAT** | **-5.9** | **-13.0** | **-9.8** | **-10.9** | **-13.7** |
| Sig Items, Discon Ops & Mins | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Reported NPAT** | **-5.9** | **-13.0** | **-9.8** | **-10.9** | **-13.7** |
| Effective income tax rate | 0.0 | 0.0 | -2% | 0.0 | 0.0 |
| **CASHFLOW (A$mn)** | | | | | |
| Cash receipts | 0.0 | 0.0 | 0.0 | 0.0 | 69.7 |
| Payments to suppliers | -2.7 | -6.2 | -8.0 | -9.2 | -54.2 |
| Interest received | 0.0 | -0.1 | 0.6 | 0.1 | -1.6 |
| Interest paid | 0.0 | 0.0 | 0.1 | -1.7 | -9.9 |
| Other | -3.9 | -3.6 | -1.6 | 0.0 | 0.0 |
| **Operating Cashflow** | **-6.5** | **-10.0** | **-8.9** | **-10.8** | **4.1** |
| Payments for PP&E | 0.0 | 0.0 | -1.0 | -1.0 | -1.0 |
| Payments for Development | 0.0 | 0.0 | -5.8 | -82.7 | -24.0 |
| Payments for Exploration | -1.3 | -1.0 | 0.0 | 0.0 | 0.0 |
| Asset Sales / (Purchases) | 0.0 | 2.2 | 0.0 | 0.0 | 0.0 |
| Other | 0.0 | -2.8 | 0.0 | 0.0 | 0.0 |
| **Investing Cashflow** | **-1.3** | **-1.6** | **-6.9** | **-83.7** | **-25.0** |
| Share Issuance / (Buyback) | 17.4 | 0.0 | 25.0 | 0.0 | 0.0 |
| Drawdown / (Repayment) of Debt | 0.0 | 0.0 | 0.0 | 94.5 | 24.1 |
| Dividends | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 3.5 | 1.1 | -1.0 | 0.0 | 0.0 |
| **Financing Cashflow** | **20.9** | **1.1** | **24.0** | **94.5** | **24.1** |
| Surplus / Defecit | 13.1 | -10.5 | 8.2 | 0.0 | 3.1 |
| **BALANCE SHEET (A$mn)** | | | | | |
| Current Assets | 29.1 | 5.8 | 25.6 | 25.6 | 28.7 |
| Non-Current Assets | 59.8 | 60.8 | 67.8 | 151.5 | 156.8 |
| **Total Assets** | **88.9** | **66.6** | **93.5** | **177.2** | **185.5** |
| Current Liabilities | 3.3 | 9.1 | 7.8 | 7.8 | 7.8 |
| Non-Current Liabilities | 63.2 | 42.7 | 43.9 | 138.5 | 162.5 |
| **Total Liabilities** | **66.5** | **51.8** | **51.7** | **146.3** | **170.4** |
| **Net Assets** | **22.3** | **14.8** | **41.7** | **30.9** | **15.2** |
| Total Cash | 28.3 | 4.9 | 25.6 | 25.6 | 28.7 |
| Total Debt | 0.0 | 0.0 | 0.0 | 94.5 | 118.6 |
| **Net Debt** | **-28.3** | **-4.9** | **-25.6** | **68.9** | **89.9** |

| | 2020 | 2021E | 2022E | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|---|
| **KEY ASSUMPTIONS** | | | | | | |
| U3O8 (US$/lb) | 32.0 | 32.8 | 36.8 | 52.3 | 72.5 | 75.0 |
| A$/US$ | 0.68 | 0.75 | 0.73 | 0.73 | 0.72 | 0.71 |
| **REALISED PRICES** | | | | | | |
| U3O8 (A$/lb) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 105.6 |
| **PRODUCTION FORECASTS** | | | | | | |
| U3O8 (klbs) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 660.1 |
| **Total (klbs)** | **0.0** | 0.0 | **0.0** | **0.0** | **0.0** | **660.1** |
| **NET RESERVES AND RESOURCES** | | | | | | |
| Kayelekera(M) (Mlbs) | 4.1 | | | | | |
| Kayelekera (M+I) (Mlbs) | 31.2 | | | | | |
| Kayelekera (M+I+I) (Mlbs) | 37.5 | | | | | |
| **PER SHARE DATA** | | | | | | |
| Average Shares (Diluted, M) | 145 | 653 | 1140 | 1266 | 1327 | 1327 |
| EOP Shares (Diluted, mn) | 672 | 955 | 1207 | 1327 | 1327 | 1327 |
| Normalised EPS (A¢/sh) | -2.7 | -0.9 | -1.1 | -0.8 | -0.8 | -1.0 |
| CF PS (A¢/sh) | -2.6 | -1.0 | -0.9 | -0.7 | -0.8 | 0.3 |
| FCF PS (A¢/sh) | 4.4 | -1.2 | -1.0 | -1.2 | -7.1 | -1.6 |
| **RATIOS** | | | | | | |
| Dividend Yield | 0% | 0% | 0% | 0% | 0% | 0% |
| PE | n/a | n/a | n/a | n/a | n/a | n/a |
| PCF (Debt Adj) | n/a | n/a | n/a | n/a | n/a | 22.3 |
| EV / EBITDA | n/a | n/a | n/a | n/a | n/a | 22 |
| Gearing (ND / ND + E) | n/a | n/a | n/a | n/a | 69% | 86% |
| Net Debt / EBITDA | n/a | n/a | n/a | n/a | n/a | n/a |
| Interest Cover | 0.0x | 0.0x | 0.0x | -19.1x | -5.4x | -0.4x |
| ROE (Reported Profit / Av Equity) | n/a | n/a | n/a | n/a | n/a | n/a |
| ROIC | n/a | n/a | n/a | n/a | n/a | n/a |
| ROACE | n/a | n/a | n/a | n/a | n/a | n/a |
| FCF Yield | 24% | -6% | -5% | -7% | -39% | -9% |
| **DIVIDEND AND FRANKING** | | | | | | |
| Dividend (A¢/sh) | 0 | 0 | 0 | 0 | 0 | 0 |
| Payout ratio | 0% | 0% | 0% | 0% | 0% | 0% |
| Franking Balance (A$mn) | 0 | 0 | 0 | 0 | 0 | 0 |
| **VALUATION** | **Risked** | | | | | |
| Kayelekera Restart | 0.24 | | | | | |
| Kayelekera other resources | 0.07 | | | | | |
| Exploration | 0.04 | | | | | |
| EV adjustments | 0.01 | | | | | |
| **TOTAL** | **0.36** | | | | | |
| PREMIUM/(DISCOUNT) | 0.0 | | | | | |
| **PRICE TARGET** | **0.36** | | | | | |

Source: Company reports, Canaccord Genuity estimates

**Figure 2: Sum-of-the parts valuation**

| Asset | Equity % | Net Capacity ktpa | NPV A$mn | Risking % | Risked NPV A$mn | Risked NPV A$ps |
|---|---|---|---|---|---|---|
| **PRODUCTION ASSETS** | | **0** | **0** | **0%** | **0.0** | **0.00** |
| Kayelekera Restart | 85% | 2400 | 401.5 | 80% | 321.2 | 0.24 |
| **DEVELOPMENT ASSETS** | | **2400** | | | **321.2** | **0.24** |
| Kayelekera other resources | | | | | 95.5 | 0.07 |
| **RESOURCES** | | | | | **95.5** | **0.07** |
| Exploration | | | | | 50.0 | 0.04 |
| **EXPLORATION** | | | | | **50.0** | **0.04** |
| **Net Debt, Balance sheet adj. & corp. overhead** | | | | | | **0.01** |
| Premium / (Discount) | | | | | | 0.00 |
| **Price Target** | | | | | | **0.36** |

Source: Canaccord Genuity estimates

**Figure 3: Valuation sensitivity**

| | | Average U3O8 Prices | | | | | |
|---|---|---|---|---|---|---|---|
| | $/ps | US$60/lb | US$65/lb | US$70/lb | US$75/lb | US$80/lb | US$85/lb |
| AUD/USD | 0.61 | 0.24 | 0.30 | 0.35 | 0.41 | 0.46 | 0.52 |
| AUD/USD | 0.66 | 0.23 | 0.28 | 0.33 | 0.38 | 0.43 | 0.48 |
| AUD/USD | 0.71 | 0.22 | 0.27 | 0.32 | 0.36 | 0.41 | 0.46 |
| AUD/USD | 0.76 | 0.21 | 0.26 | 0.30 | 0.35 | 0.39 | 0.43 |
| AUD/USD | 0.81 | 0.20 | 0.25 | 0.29 | 0.33 | 0.37 | 0.41 |
| AUD/USD | 0.86 | 0.20 | 0.24 | 0.28 | 0.32 | 0.36 | 0.39 |

Source: Canaccord Genuity estimates

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**Investment Recommendation**

Date and time of first dissemination: April 27, 2023, 21:50 ET

Date and time of production: April 27, 2023, 21:50 ET

**Target Price / Valuation Methodology:**

Lotus Resources Limited - LOT

We value LOT using an SOTP methodology, deriving a price target which has been risked for the restart of Kayelekera (80%). We have applied a discounted cash flow valuation for Kayelekera (8% WACC) and the company's corporate costs.

**Risks to achieving Target Price / Valuation:**

Lotus Resources Limited - LOT

**Financing risks**

Our analysis suggests that BOE will require additional capital to fund the development costs for Kayelekera project for which we have risked our valuation. As a pre-cashflow company, LOT is reliant on equity/debt/external capital to fund capital commitments, and there is no guarantee that accessing these markets will be achieved without dilution to shareholders. Furthermore, accurate estimates of capital costs for the project remain subject to completion and feasibility studies, which may see capital requirements exceed our model assumptions. There is no guarantee that studies will result in a positive investment decision for the project.

**Operational risks**

Once in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical (noting flowsheet changes to address previous challenges), geological and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets and negatively impact valuation. Further, the yellow cake product specifications may differ from initial test work interpretations which can also materially impact product acceptance by customers and therefore earnings from forecast production.

**Market risks**

LOT's sales revenue is dependent on being able to secure term contracts for its proposed level of production and priced with the required mechanisms that will enable proactive capital and budgetary management. We note the protracted nature of negotiating uranium product offtake with the potential that timelines could be prolonged to ensure than an acceptable order book is agreed on.

**Commodity price and currency fluctuation**

The company, as a near-term uranium producer is exposed to commodity price and currency fluctuations, often driven by macroeconomic forces including inflationary pressure, interest rates and supply and demand of commodities. These factors are external and could reduce the profitability, costing and prospective outlook for the business

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**Global Stock Ratings (as of 04/27/23)**

| Rating | Coverage Universe | | IB Clients |
|---|---|---|---|
| | # | % | % |
| Buy | 602 | 64.59% | 22.26% |
| Hold | 144 | 15.45% | 11.81% |
| Sell | 16 | 1.72% | 0.00% |
| Speculative Buy | 155 | 16.63% | 44.52% |
| | 932* | 100.0% | |

*Total includes stocks that are Under Review

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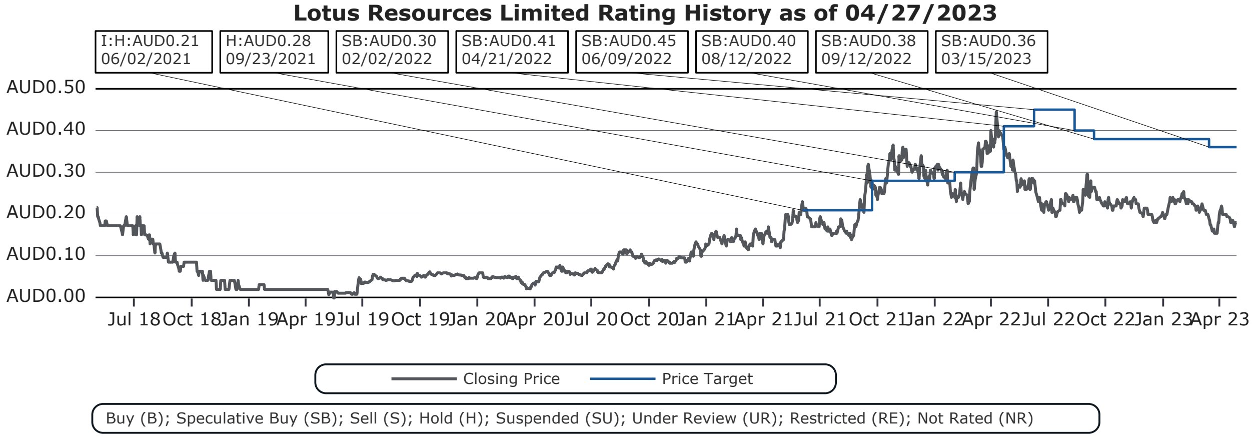


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