

14 July 2023

## Lotus Resources Limited (LOT) Buy

**Share Price: A\$0.20**

### Bulking up for the next cycle

**Target Price: A\$0.42**

In line with its flagged interest in M&A in Africa, LOT has agreed to a scheme of arrangement with A-Cap Energy (ASX:ACB), with LOT issuing one LOT share for every 3.54 ACB shares. ACB holds the very large Letlhakane deposit in Botswana. The addition of Letlhakane to LOT's existing Kayelekera Resource presents a pathway to circa 25 years of uranium supply for utilities. Importantly, post-merger, LOT will host the third largest uranium Resource on the ASX. LOT is effectively paying A\$0.052/share for ACB. ACB's all-time high, back in the last uranium boom, was A\$2.06/share, highlighting the leverage in a large Resource base. Maintain Buy with TP A\$0.42/sh (prev A\$0.50/sh) on delaying Kayelekera start to Jun. Q '25.

#### Bulking up pounds in the ground

- A-Cap Energy defined a 365.7Mlb Resource at Letlhakane, using a 100ppm cut-off. LOT appears to use a more conservative 200ppm cut-off, for a still large 190.4Mlbs at 321ppm.
- At a 300ppm cut-off, the resource grade increases to 450ppm, with a still substantial Resource of 103Mlbs.
- The proforma entity would have 234Mlbs of attributable Resource, giving it the third largest Resource base on the ASX (Figure 2).
- LOT's scrip offer represents an effective payment of A\$0.052/share for ACB against a rolling 12-month high/low for ACB of A\$0.11/A\$0.04, and ACB's all-time high of A\$2.06/share in 2007.

#### Diversifying, but keeping the African focus

- The addition of a second project in Southern Africa diversifies LOT but retains its African focus (Figure 3).
- Botswana has an exceptional reputation for mining having ranked in the Top 10 in the Fraser Institute's "Annual Survey of Mining Companies, 2022".

#### Here for the long-term

- LOT recognises the value in providing utilities with the confidence that LOT can become a multi decade supplier. The Kayelekera DFS foresees 10 years of production (Petra 13yrs), and the addition of Letlhakane increases this substantially (Figure 4).

#### Key Dates Ahead

- Ongoing – Offtake negotiations & Mine Development Agreement
- 2H 2023 – Final Investment Decision
- Mar. Q'24 - Financing
- Jun. Q'25 – Anticipated first production

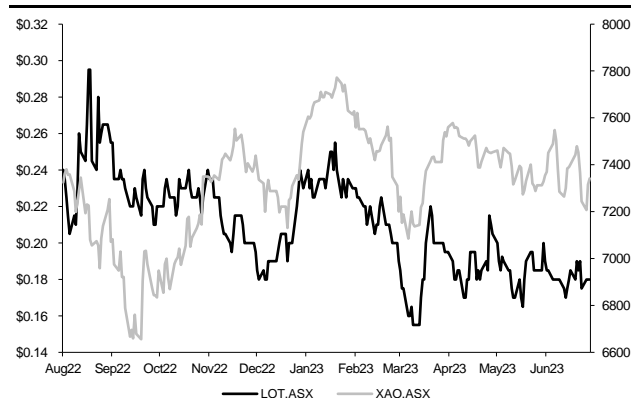
#### Company Data

Shares – ordinary (Pro-forma, M)	1,701
Dilution (M)	35
Total (Pro-forma fully diluted) (M)	1,736
Market cap' (Pro-forma, \$M)	340
12 month low/high (\$)	0.15/ 0.30
Average monthly turnover (\$M)	8.9
GICS Industry	Metals & Mining

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

Year end June	FY22A	FY23F	FY24F	FY25F	FY26F
Revenue (\$M)	2.6	0.0	0.0	46.7	219.4
Costs (\$M)	-15.5	-6.8	-4.3	-28.8	-88.7
EBITDA (\$M)	-13.0	-6.8	-4.3	17.9	130.7
NPAT (\$M)	-13.0	-5.8	-3.1	7.3	83.0
EPS (¢ps)	NA	NA	NA	NA	4.1
EPS Growth (%)	NA	NA	NA	NA	3548%
PER (x)	NA	NA	NA	179.3	4.9
Op. Cashflow (\$M)	-10.0	-7.4	-3.0	-34.6	64.7
OCFPS (¢ps)	-0.8	-0.4	-0.1	-1.7	3.2
POCFPS (x)	-24.8	-45.5	-135.9	-11.8	6.3
Enterprise Value (\$M)	242.2	320.6	367.4	513.2	458.4
EV / EBITDA (x)	NA	NA	NA	39.8	3.5
Payout Ratio (%)	0%	0%	0%	0%	0%
Dividends (¢ps)	-	-	-	-	-
Yield (%)	0%	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%	0%

#### LOT – performance over one year



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Colin McLelland  
+61 2 9239 9639

## Analysis

### Lotus Resources (LOT)

Values are in A\$ millions unless indicated otherwise

Year End June

Income Statement	FY22A	FY23F	FY24F	FY25F	FY26F
<b>Operations Revenue</b>	<b>2.6</b>	<b>0.0</b>	<b>0.0</b>	<b>46.7</b>	<b>219.4</b>
Operating Costs	-3.5	-1.3	0.0	-23.8	-83.7
Corporate & Admin	-6.1	-3.3	-4.3	-5.0	-5.0
Exploration & Other	-5.9	-2.2	0.0	0.0	0.0
<b>EBITDA</b>	<b>-13.0</b>	<b>-6.8</b>	<b>-4.3</b>	<b>17.9</b>	<b>130.7</b>
D&A	0.0	0.0	0.0	-6.9	-32.5
<b>EBIT</b>	<b>-13.0</b>	<b>-6.8</b>	<b>-4.3</b>	<b>11.0</b>	<b>98.2</b>
Net Interest	0.0	1.0	1.2	-3.7	-15.3
Underlying PBT	-13.0	-5.8	-3.1	7.3	83.0
Tax	0.0	0.0	0.0	0.0	0.0
<b>Underlying NPAT</b>	<b>-13.0</b>	<b>-5.8</b>	<b>-3.1</b>	<b>7.3</b>	<b>83.0</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>-13.0</b>	<b>-5.8</b>	<b>-3.1</b>	<b>7.3</b>	<b>83.0</b>

Cash Flow Statement	FY22A	FY23F	FY24F	FY25F	FY26F
Receipts from Operations	0.2	0.0	0.0	16.0	172.7
Operating Costs	-10.1	-8.4	-4.2	-46.9	-92.6
Net Interest	-0.1	1.0	1.2	-3.7	-15.3
Tax Paid	0.0	0.0	0.0	0.0	0.0
<b>Operating Cash Flow</b>	<b>-10.0</b>	<b>-7.4</b>	<b>-3.0</b>	<b>-34.6</b>	<b>64.7</b>
Exploration	0.0	-2.2	0.0	0.0	0.0
Capital Expenditure	-1.0	0.0	-33.5	-110.7	-9.5
Acquisitions +Other	-0.6	-4.4	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>-1.6</b>	<b>-6.7</b>	<b>-33.5</b>	<b>-110.7</b>	<b>-9.5</b>
<b>Free Cash Flow</b>	<b>-11.6</b>	<b>-14.0</b>	<b>-36.5</b>	<b>-145.3</b>	<b>55.2</b>
Change in Debt	0.0	0.0	48.7	70.7	-40.0
Change in Equity	1.1	24.2	60.9	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>1.1</b>	<b>24.2</b>	<b>109.5</b>	<b>70.7</b>	<b>-40.0</b>
<b>Change in Cash</b>	<b>-10.5</b>	<b>10.1</b>	<b>73.0</b>	<b>-74.7</b>	<b>15.2</b>

Balance Sheet	FY22A	FY23F	FY24F	FY25F	FY26F
Cash & Equivalants	4.9	15.0	88.0	13.3	28.6
Trade Receivables	0.0	0.0	0.0	30.7	77.5
Other	0.9	0.9	0.9	0.9	0.9
<b>Current Assets</b>	<b>5.8</b>	<b>15.9</b>	<b>88.9</b>	<b>45.0</b>	<b>106.9</b>
PPE	0.0	0.0	79.8	183.6	160.7
Other Non-Current	60.8	68.5	24.8	41.0	46.7
<b>Non-Current Assets</b>	<b>60.8</b>	<b>68.5</b>	<b>104.6</b>	<b>224.6</b>	<b>207.4</b>
<b>Total Assets</b>	<b>66.6</b>	<b>84.4</b>	<b>193.5</b>	<b>269.6</b>	<b>314.3</b>
Trade Payables	1.7	0.2	0.3	3.4	5.2
Current Debt	0.0	0.0	0.0	40.0	40.0
Provisions, Other	7.4	7.4	7.4	7.4	7.4
<b>Current Liabilities</b>	<b>9.1</b>	<b>7.5</b>	<b>7.6</b>	<b>50.8</b>	<b>52.6</b>
Long Term Debt	0.0	0.0	48.7	79.3	39.3
Other	42.7	42.7	42.7	42.7	42.7
<b>Non-Current Liabilities</b>	<b>42.7</b>	<b>42.7</b>	<b>91.4</b>	<b>122.0</b>	<b>82.0</b>
<b>Total Liabilities</b>	<b>51.8</b>	<b>50.3</b>	<b>99.0</b>	<b>172.8</b>	<b>134.6</b>
<b>Net Assets</b>	<b>14.8</b>	<b>34.1</b>	<b>94.5</b>	<b>96.7</b>	<b>179.7</b>

Metrics & Dividends	FY22A	FY23F	FY24F	FY25F	FY26F
EPS	NA	NA	0.0	0.1	4.1
PER	NA	NA	NA	179.3x	4.9x
EBITDA GROWTH	NA	NA	NA	403%	914%
EV/EBITDA	NA	NA	NA	39.8x	3.5x
Dividend (cps)	0.0	0.0	0.0	0.0	0.0
Div Yield	0%	0%	0%	0%	0%
Franking	0%	0%	0%	0%	0%

Rating	BUY
Target Price (A\$/share)	0.42
Price (A\$/share)	0.20
Shares on Issue (M, Pro-Forma)	1,701
<b>Mcap (A\$M, Undiluted)</b>	<b>340.1</b>
EV (A\$M, Undiluted)	312
Unlisted Options (M, Various - Avg Ex @0.050/sh)	14
Zero cost Company options (M)	21
Assumed new shares issued (M, A\$66M @\$0.20/sh)	327
Fully Diluted shares on issue assumed (M)	2,063

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
Letlhakane Ore (Mt)	0	59.2	209.7	268.9	0
U <sub>3</sub> O <sub>8</sub> Grade (ppm)	0	323	321	321	0
U <sub>3</sub> O <sub>8</sub> (Mlbs)	0.0	42.2	148.2	190.4	0
<b>U<sub>3</sub>O<sub>8</sub> (Mlbs, 100% basis)</b>	<b>4.2</b>	<b>75.4</b>	<b>157.1</b>	<b>241.5</b>	<b>23.0</b>

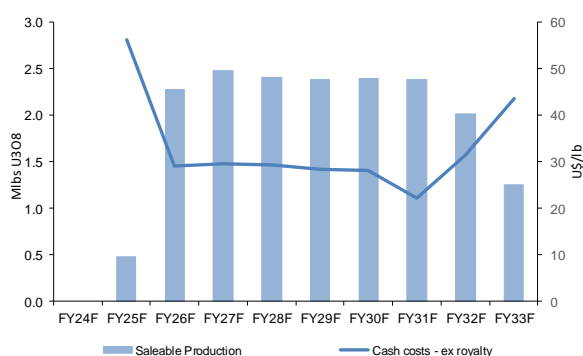
Assumptions	FY22A	FY23F	FY24F	FY25F	FY26F
Currency AUD/USD	0.73	0.67	0.69	0.73	0.75
U <sub>3</sub> O <sub>8</sub> (US\$/lb)	47	51	76	85	85

Process Plant feed (100%)	FY22A	FY23F	FY24F	FY25F	FY26F
Ore Tonnes (Mtpa)	N/A	N/A	N/A	0.3	1.3
U <sub>3</sub> O <sub>8</sub> Grade (ppm)	N/A	N/A	N/A	925	927

Saleable Production	FY22A	FY23F	FY24F	FY25F	FY26F
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> )	FY22A	FY23F	FY24F	FY25F	FY26F
Cash costs - Exc Royalty	N/A	N/A	N/A	56.2	29.0
Cash costs - Inc Royalty	N/A	N/A	N/A	68.7	32.4
AISC costs	N/A	N/A	N/A	92.7	36.1
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	739.1	0.36
Letlhakane	Est.	70.4	0.03
Wilconi Ni-Co	Est.	10.0	0.00
Livingstonia and Exploration	Est.	43.8	0.02
Corporate costs	NPV <sub>10</sub> +1	(41.7)	(0.02)
<b>Enterprise value</b>		<b>822</b>	<b>0.40</b>
Options	A/C	0.5	0.00
Pro-Forma Net Cash (Debt) Jun24F		44.4	0.02
<b>Equity Value</b>		<b>867</b>	<b>0.42</b>

Source: Petra Capital

## Summary of changes

We have:

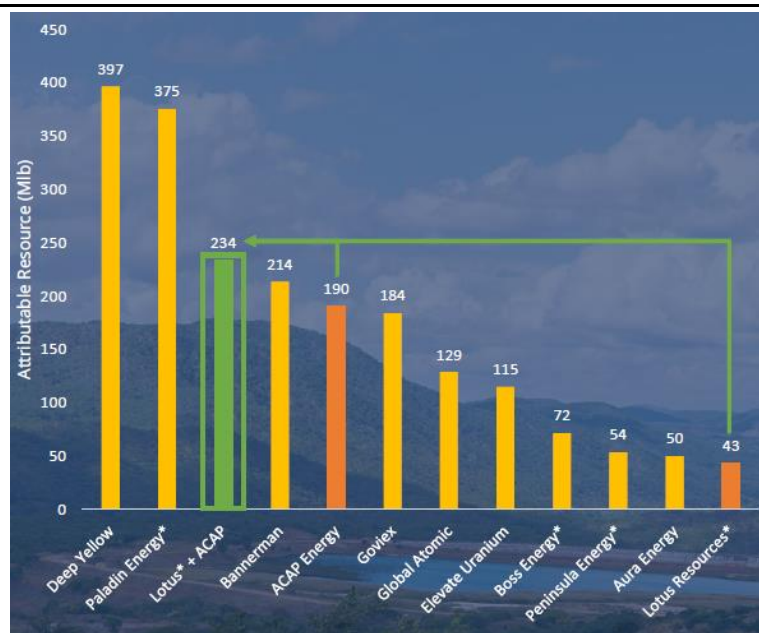
- Pushed back first production at Kayelekera to Jun.Q '25
- Increased assumed life of corporate costs, now extended to 2050
- Added a nominal valuation for Letlhakane, valuing 190Mlbs at the explorers' average EV/lb rating of A\$0.37/lb for A\$70m
- Incorporated a nominal valuation for the non-core Wilconi Ni-Co project (A\$10m)
- Assumed 60% equity funding at the current price (previously 100% at A\$0.30/share)
- Added 356m shares on issue for pro-forma MergeCo

**Figure 1: Summary of changes**

		FY24F			FY25F			FY26F		
		New	Old	% var	New	Old	% var	New	Old	% var
<b>Revenue</b>	A\$m	0.0	50	n/a	46.7	227	-79%	219	239	-8%
<b>EBITDA</b>	A\$m	-4.3	20	-121%	17.9	135	-87%	131	141	-7%
<b>NPAT</b>	A\$m	-3.1	11	-129%	7.3	93	-92%	83	104	-20%
<b>Valuation</b>	A\$m	<b>867</b>	<b>866</b>	<b>0%</b>						
<b>Target Price</b>	A\$/sh	<b>0.42</b>	<b>0.50</b>	<b>-16%</b>						

Source: Petra Capital

**Figure 2: The merged LOT becomes the third largest resource base on the ASX**



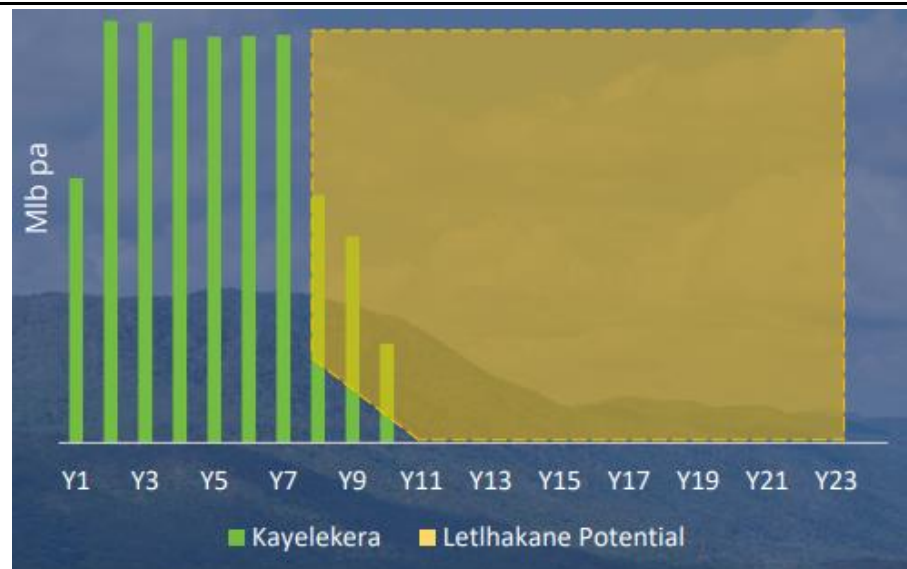
Source: Lotus Resources

**Figure 3: Diversified, but maintaining an African focus**



Source: Lotus Resources

**Figure 4: Letlhakane provides a viable pathway to a potential multi-decade life**



Source: Lotus Resources



**Petra Capital**  
 Level 17, 14 Martin Place, Sydney NSW 2000  
 Level 5, 1 Collins Street, Melbourne VIC 3000

ABN 95 110 952 782  
 ACN 110 952 782  
 AFSL 317 944

Director:	George Marias	+61 (0)2 9239 9601	gmarias@petracapital.com.au
Research (Resources):	Brett McKay	+61 (0)2 9239 9605	bmckay@petracapital.com.au
Research (Resources):	Hugh Stackpool	+61 (0)2 9239 9625	hstackpool@petracapital.com.au
Research (Resources):	David Brennan	+61 (0)2 9239 9630	dbrennan@petracapital.com.au
Research (Resources):	Andrew Harrington	+61 (0)2 9239 9614	aharrington@petracapital.com.au
Research (Resources):	Kieran Barratt	+61 (0)2 9239 9610	kbarratt@petracapital.com.au
Research (Resources):	Colin McLelland	+61 (0)2 9239 9639	cmcllland@petracapital.com.au
Research (Industrials):	Liam Cummins	+61 (0)2 9239 9607	lcummins@petracapital.com.au
Research (Industrials):	James Lennon	+61 (0)2 9239 9618	jlennon@petracapital.com.au
Research (Industrials):	Sam Haddad	+61 (0)2 9239 9633	shaddad@petracapital.com.au
Research (Industrials):	Ken Wagner	+61 (0)2 9239 9642	kwagner@petracapital.com.au
Research (Industrials):	Daniel Ireland	+61 (0)2 9239 9647	direland@petracapital.com.au
Research (Industrials):	Mark Yarwood	+61 (0)2 9239 9646	myarwood@petracapital.com.au
Research (Healthcare):	Tanushree Jain	+61 (0)2 9239 9649	tjain@petracapital.com.au
Sales:	Frank Barila	+61 (0)2 9239 9603	fbarila@petracapital.com.au
Sales:	Vincent Pisani	+61 (0)2 9239 9617	vpisani@petracapital.com.au
Sales:	Peter Veldhuizen	+61 (0)2 9239 9609	pveldhuizen@petracapital.com.au
Sales:	Neil Watson	+61 (0)2 9239 9602	nwatson@petracapital.com.au
Sales:	Leigh Gardner	+61 (0)400 740 842	lgardner@petracapital.com.au
Sales:	Vince Barila	+61 (0)2 9239 9627	vbarila@petracapital.com.au
Sales:	Colin Redmond	+61 (0)2 9239 9613	credmond@petracapital.com.au
Sales:	Richard Macphillamy	+61 (0)2 9239 9604	rmacphillamy@petracapital.com.au
Sales:	Paul Doherty	+61 (0)407 194 549	pdoherty@petracapital.com.au
Sales:	Tyrone Lara	+61 (0)2 9239 9608	tlara@petracapital.com.au
Sales:	Vince Musumeci	+61 (0)2 9239 9606	vmusumeci@petracapital.com.au
Sales:	Andrew Richards	+61 (0)2 9239 9638	arichards@petracapital.com.au
Sales:	Rob Dobson	+61 (0)2 9239 9628	rdobson@petracapital.com.au
Sales:	Denise Wong	+61 (0)2 9239 9650	dwong@petracapital.com.au
Corporate (ECM):	Verity Barritt	+61 (0)2 9239 9622	vbarritt@petracapital.com.au
Corporate (ECM):	Maureen Baker	+61 (0)438 571 970	mbaker@petracapital.com.au
Corporate (ECM):	Louise Kissell	+61 (0)2 9239 9645	lkissell@petracapital.com.au
Administration:	Suzanne Graham	+61 (0)2 9239 9624	sgraham@petracapital.com.au
Administration:	Belinda Teichmann	+61 (0)2 9239 9636	bteichmann@petracapital.com.au
Administration:	Joanne Condopoulos	+61 (0)2 9239 9635	jcondopoulos@petracapital.com.au
Administration:	Victoria Smith	+61 (0)2 9239 9616	vsmith@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@petracapital.com.au
Administration:	Grace Saxby	+61 (0)2 9239 9621	gsaxby@petracapital.com.au
Legal & Compliance:	Danielle Smith	+61 (0)2 9239 9612	dsmith@petracapital.com.au
Financials:	Tony Christelis	+61 (0)2 9239 9615	tchristelis@petracapital.com.au

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