

26 October 2023

## Company Update

# Lotus Resources Limited

## Specialty Minerals and Metals

Rating  
**SPECULATIVE BUY**  
unchanged

Price Target  
**A\$0.45**  
unchanged

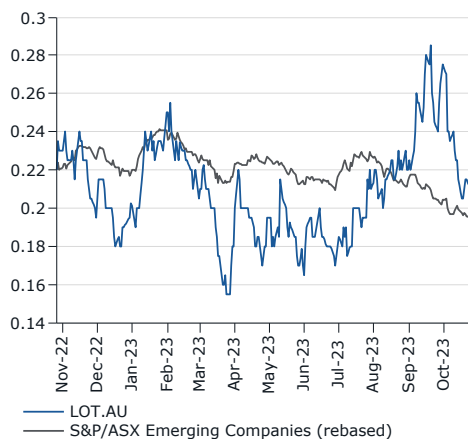
**LOT-ASX**

Price  
**A\$0.24**

### Market Data

52-Week Range (A\$) :	0.15 - 0.29
Market Cap (A\$M) :	325.2
Shares Out. (M) :	1,327.2
Dividend /Shr (A\$) :	0.00
Dividend Yield (%) :	0.0
Enterprise Value (A\$M) :	300.2
NAV /Shr (A\$) :	0.38
P/NAV (x) (A\$) :	0.65

FYE Jun	2022A	2023E	2024E	2025E
Sales (A\$M)	0.0	0.0	0.0	76.5
EBITDA (A\$M)	(13.0)	(9.2)	(9.2)	20.1



Priced as of close of business 25 October 2023

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

Canaccord Genuity (Australia) Limited acted as financial adviser to A-Cap Energy Limited with respect to the proposed merger with Lotus Resources Limited.

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## LOT of reasons to own

The scheme of arrangement with A-Cap has received overwhelming support (99.8%). This proposed merger combines two highly complementary and synergistic projects, both located on a similar geological trend under a single, African-focused vehicle which will be exposed to the global uranium thematic. With two large-scale growth assets, LOT will be differentiated from single-asset juniors, which should, in our view, see a higher level of customer interest given the potential for enhanced future supply security.

We retain our SPECULATIVE BUY rating and \$0.45 price target; LOT is one of our preferred global uranium picks.

### Trading on US\$1.10 EV/resource

The pro-forma merged entity is currently trading on \$1.1/lb of resource vs a peer group average of US\$2.8/lb. A blunt valuation comparison for sure, but with 1) the Kayelekera restart representing one of the most capital efficient and shortest development cycle projects available to the uranium market, and 2) the potential for high grading and optimisation at Lethakane, the stock is highly attractive in our view.

### Kayelekera is primed for a positive FID

KUP benefits from over US\$200mn in sunk infrastructure which has been left in good condition (est. US\$300mn replacement value). Consequently, while it sits in the second quartile for AISC (US\$37.7/lb), the project's capital intensity (US\$88mn upfront capex for 2.4Mlb/y) differentiates it versus greenfield rivals.

With LOT noting that the market is "effectively rising to the pricing level Lotus has been prescribing in its submissions for the last 12 months" a positive FID in the medium term is highly likely, in our opinion. Additionally, while the company would clearly like to have the Mine Development Agreement signed before sanctioning the restart it is not an absolute necessity.

### Balance sheet

LOT ended the period with \$13.5mn of unrestricted cash, excludes restricted cash of \$15.5mn which forms cash collateral for the Kayelekera environmental bond. The cash balance decreased by \$2.0mn compared to JunQ, with the majority of these outflows related to site care and maintenance.

### Market update

The U3O8 spot price now stands at US\$74/lb. Additionally, the more important term market continues to see the highest activity in over 10 years with 145Mlb contracted YTD. With the likes of SPUT currently sitting on cash (~US\$35mn) and trading close to NAV, there is still potential that utilities and financial players find themselves competing for pounds coming into the Northern Hemisphere winter.

**Figure 1: Financial summary**

FY Jun 30	2021	2022	2023E	2024E	2025E		2021	2022	2023E	2024E	2025E
<b>PROFIT &amp; LOSS (A\$mn)</b>						<b>KEY ASSUMPTIONS</b>					
Revenue	0.0	0.0	0.0	0.0	76.5	U3O8 (US\$/lb)	32.8	45.4	50.5	70.0	77.5
Operational Costs	0.0	0.0	0.0	0.0	-41.2	A\$/US\$	0.75	0.73	0.68	0.67	0.68
Royalty	0.0	0.0	0.0	0.0	-5.5						
Other Income	0.2	2.6	0.6	0.0	0.0	<b>REALISED PRICES</b>					
Business Devt & Expl	0.0	-4.7	0.0	0.0	0.0	U3O8 (A\$/lb)	0.0	0.0	0.0	0.0	115.9
Corporate & Other	-6.1	-10.8	-9.8	-9.2	-9.6						
<b>EBITDA</b>	<b>-5.9</b>	<b>-13.0</b>	<b>-9.2</b>	<b>-9.2</b>	<b>20.1</b>	<b>PRODUCTION FORECASTS</b>					
DD&A	0.0	0.0	0.0	0.0	-20.6	U3O8 (klbs)	0.0	0.0	0.0	0.0	660.1
Other	0.0	0.0	0.0	0.0	0.0	<b>Total (klbs)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>660.1</b>
<b>EBIT</b>	<b>-5.9</b>	<b>-13.0</b>	<b>-9.2</b>	<b>-9.2</b>	<b>-0.5</b>						
Net Financing	0.0	0.0	-0.5	-2.0	-10.6	<b>NET RESERVES AND RESOURCES</b>					
<b>NPBT</b>	<b>-5.9</b>	<b>-13.0</b>	<b>-9.7</b>	<b>-11.2</b>	<b>-11.1</b>	Kayelekera (M) (Mlbs)					
Tax	0.0	0.0	-0.2	0.0	-0.7	Kayelekera (M+I) (Mlbs)					
<b>Normalised NPAT</b>	<b>-5.9</b>	<b>-13.0</b>	<b>-9.8</b>	<b>-11.2</b>	<b>-11.9</b>	Kayelekera (M+I+I) (Mlbs)					
Sig Items, Discon Ops & Mins	0.0	0.0	0.0	0.0	0.0						
<b>Reported NPAT</b>	<b>-5.9</b>	<b>-13.0</b>	<b>-9.8</b>	<b>-11.2</b>	<b>-11.9</b>	<b>PER SHARE DATA</b>					
Effective income tax rate	0.0	0.0	-2%	0.0	-0.1	Average Shares (Diluted, M)	653	1140	1266	1617	1675
						EOP Shares (Diluted, mn)	955	1207	1327	1675	1675
<b>CASHFLOW (A\$mn)</b>						Normalised EPS (A¢/sh)	-0.9	-1.1	-0.8	-0.7	-0.7
Cash receipts	0.0	0.0	0.0	0.0	76.5	CF PS (A¢/sh)	-1.0	-0.9	-0.7	-0.7	0.5
Payments to suppliers	-2.7	-6.2	-8.0	-9.2	-56.4	FCF PS (A¢/sh)	-1.2	-1.0	-1.3	-6.3	-1.1
Interest received	0.0	-0.1	0.6	0.0	-1.8	<b>RATIOS</b>					
Interest paid	0.0	0.0	0.1	-2.0	-10.6	Dividend Yield	0%	0%	0%	0%	0%
Other	-3.9	-3.6	-1.6	0.0	0.0	PE	n/a	n/a	n/a	n/a	n/a
<b>Operating Cashflow</b>	<b>-6.5</b>	<b>-10.0</b>	<b>-8.9</b>	<b>-11.2</b>	<b>7.7</b>	PCF (Debt Adj)	n/a	n/a	n/a	n/a	27.1
Payments for PP&E	0.0	0.0	-1.0	-1.0	-1.0	EV / EBITDA	n/a	n/a	n/a	n/a	25
Payments for Development	0.0	0.0	-6.5	-89.5	-25.0	Gearing (ND / ND + E)	n/a	n/a	n/a	72%	84%
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	Net Debt / EBITDA	n/a	n/a	n/a	n/a	n/a
Other	0.0	-2.8	0.0	0.0	0.0	Interest Cover	0.0x	0.0x	-19.1x	-4.7x	0.0x
<b>Investing Cashflow</b>	<b>-1.3</b>	<b>-1.6</b>	<b>-7.6</b>	<b>-90.6</b>	<b>-26.1</b>						
Share Issuance / (Buyback)	17.4	0.0	25.0	0.0	0.0	ROE (Reported Profit / Av Equity)	n/a	n/a	n/a	n/a	n/a
Drawdown / (Repayment) of Debt	0.0	0.0	0.0	101.7	25.1	ROIC	n/a	n/a	n/a	n/a	n/a
Dividends	0.0	0.0	0.0	0.0	0.0	ROACE	n/a	n/a	n/a	n/a	n/a
Other	3.5	1.1	-1.0	0.0	0.0	FCF Yield	-5%	-4%	-5%	-26%	-4%
<b>Financing Cashflow</b>	<b>20.9</b>	<b>1.1</b>	<b>24.0</b>	<b>101.7</b>	<b>25.1</b>	<b>DIVIDEND AND FRANKING</b>					
Surplus / Defecit	13.1	-10.5	7.5	0.0	6.7	Dividend (A¢/sh)	0	0	0	0	0
						Payout ratio	0%	0%	0%	0%	0%
<b>BALANCE SHEET (A\$mn)</b>						Franking Balance (A\$mn)	0	0	0	0	0
Current Assets	29.1	5.8	24.9	24.9	31.6	<b>VALUATION</b>	<b>Risked</b>				
Non-Current Assets	59.8	60.8	68.5	159.1	164.6	Kayelekera Restart	0.25				
<b>Total Assets</b>	<b>88.9</b>	<b>66.6</b>	<b>93.5</b>	<b>184.0</b>	<b>196.2</b>	Kayelekera other resources	0.16				
Current Liabilities	3.3	9.1	7.8	7.8	7.8	Exploration	0.03				
Non-Current Liabilities	63.2	42.7	43.9	145.6	170.8	EV adjustments	0.01				
<b>Total Liabilities</b>	<b>66.5</b>	<b>51.8</b>	<b>51.7</b>	<b>153.5</b>	<b>178.6</b>	<b>TOTAL</b>	<b>0.45</b>				
<b>Net Assets</b>	<b>22.3</b>	<b>14.8</b>	<b>41.7</b>	<b>30.5</b>	<b>17.6</b>	<b>PREMIUM/(DISCOUNT)</b>	<b>0.0</b>				
Total Cash	28.3	4.9	24.9	24.9	31.6	<b>PRICE TARGET</b>	<b>0.45</b>				
Total Debt	0.0	0.0	0.0	101.7	126.8						
<b>Net Debt</b>	<b>-28.3</b>	<b>-4.9</b>	<b>-24.9</b>	<b>76.8</b>	<b>95.2</b>						

Source: Company reports, Canaccord Genuity estimates

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

Asset	Equity %	Net Capacity ktpa	NPV A\$m	Risking %	Riskd NPV A\$m	Riskd NPV A\$ps
<b>PRODUCTION ASSETS</b>		<b>0</b>	<b>0</b>	<b>0%</b>	<b>0.0</b>	<b>0.00</b>
Kayelekera Restart	85%	2400	522.8	80%	418.2	0.25
<b>DEVELOPMENT ASSETS</b>		<b>2400</b>			<b>418.2</b>	<b>0.25</b>
Kayelekera other resources					95.5	0.06
Letlhakane			705	25%	176.3	0.11
<b>RESOURCES</b>					<b>271.8</b>	<b>0.16</b>
Exploration					50.0	0.03
<b>EXPLORATION</b>					<b>50.0</b>	<b>0.03</b>
<b>Net Debt, Balance sheet adj. &amp; corp. overhead</b>						<b>0.01</b>
Premium / (Discount)						0.00
<b>Price Target</b>						<b>0.45</b>

Source: Canaccord Genuity estimates

**Figure 3: Valuation sensitivity**

		Average U308 Prices					
AUD/USD	\$/ps	US\$65/lb	US\$70/lb	US\$75/lb	US\$80/lb	US\$85/lb	US\$90/lb
	0.58	0.29	0.37	0.44	0.52	0.59	0.67
	0.63	0.27	0.34	0.41	0.48	0.55	0.62
	0.68	0.26	0.32	0.39	0.45	0.52	0.58
	0.73	0.25	0.31	0.37	0.43	0.49	0.54
	0.78	0.24	0.29	0.35	0.40	0.46	0.51
	0.83	0.23	0.28	0.33	0.38	0.44	0.49

Source: Canaccord Genuity estimates

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## Investment Recommendation

Date and time of first dissemination: October 25, 2023, 22:28 ET

Date and time of production: October 25, 2023, 22:28 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 10/25/23)

Rating	Coverage Universe		IB Clients
	#	%	
Buy	607	67.00%	23.06%
Hold	118	13.02%	10.17%
Sell	13	1.43%	7.69%
Speculative Buy	158	17.44%	49.37%
	906*	100.0%	

\*Total includes stocks that are Under Review

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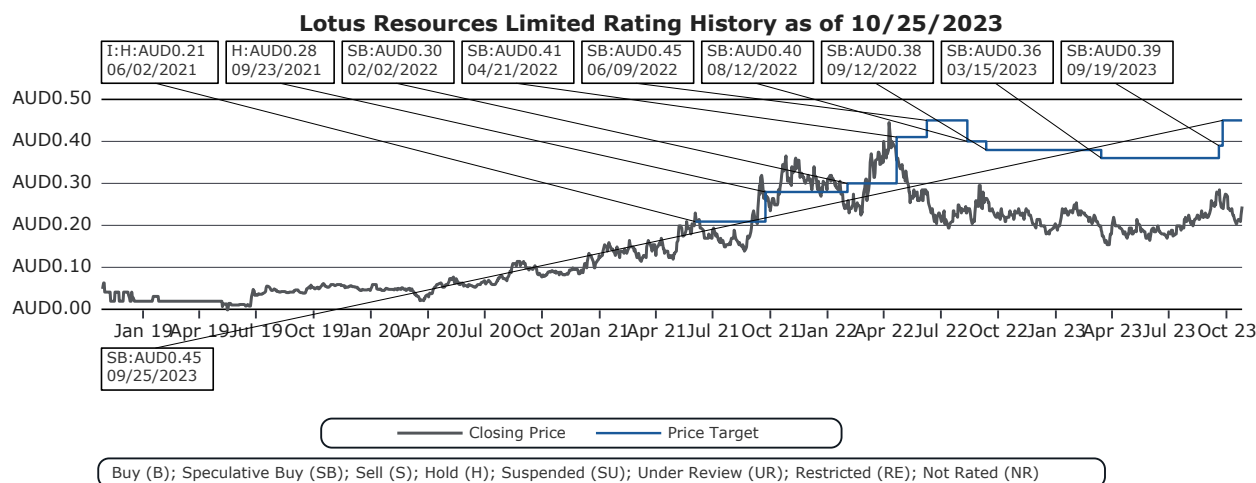
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