

**Analyst**

Regan Burrows 618 9326 7677

**Authorisation**

Bradley Watson 618 9326 7672

# Lotus Resources Ltd (LOT)

## Painting the outlook for Lethakane

**Recommendation**
**Buy** (unchanged)

**Price**
**\$0.445**
**Valuation**
**\$0.60** (previously \$0.50)

**Risk**
**Speculative**
**Sector**
**Materials**
**Expected Return**

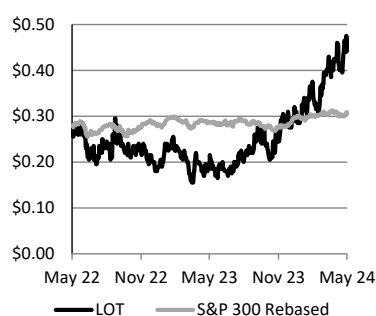
Capital growth	<b>35%</b>
Dividend yield	<b>0%</b>
Total expected return	<b>35%</b>

**Company Data & Ratios**

Enterprise value	<b>\$767m</b>
Market cap	<b>\$815m</b>
Issued capital	<b>1,831m</b>
Free float	<b>84%</b>
Avg. daily val. (52wk)	<b>\$1.96m</b>
12 month price range	<b>\$0.16-\$0.48</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	0.43	0.37	0.19
Absolute (%)	4.1	21.2	139.2
Rel market (%)	4.8	20.8	132.3

**Absolute Price**


SOURCE: IRESS

**Lethakane Resource re-cut**

LOT have reassessed the Mineral Resource Estimate (MRE) of the Lethakane project (LM) which was acquired under the merger with ACAP Resources (ACB, de-listed) in 2023. The updated MRE stands at 155.3Mt at 345ppm U<sub>3</sub>O<sub>8</sub> for a total contained 118.2Mlbs U<sub>3</sub>O<sub>8</sub>, inclusive of 34.4Mlbs in Indicated Resources, which is a reduction on the original ACB MRE (2015) of 190Mlbs at 321ppm U<sub>3</sub>O<sub>8</sub>. The main difference between the two estimates is the hypothesised operations, which infer the economic cut-off grade. Under ACB, LM was a large-scale, low-grade two stage heap leach operation. In our February initiation on LOT, we didn't see this as the path forward for the project. Our initial interpretation was that LOT would look to focus on the high-grade portions of the deposit and utilise ore-sorting to increase the milled grade over +600ppm. With a starting point of +400ppm, a conservative estimate of 40% mass rejection could achieve this we hypothesised. Today's announcement is a step towards proving that thesis.

**A couple of irons in the fire**

LOT plan to in-fill drill portions of the deposit to increase Resource confidence, which may be timed with the release of a Scoping Study in 4QCY24. Alongside positive developments at LM, LOT continue to progress the Mine Development Agreement (MDA) with the Malawian Government for Kayelekera (KM). Clearing the MDA and remaining power negotiations opens KM for a Final Investment Decision (FID) within the coming months. Across the board, LOT has several positive developments.

**Investment Thesis: Buy (speculative), Val \$0.60/sh**

We maintain a Speculative Buy recommendation and our valuation lifts to \$0.60/sh (previously \$0.50/sh). Our valuation lift comes from an extension of potential operations at LM beyond our initial forecast (initial LOM production of 61Mlbs). We see positive catalysts at KM including 1) MDA finalisation, 2) FID and 3) offtake negotiations. Successful navigation of these hurdles will place LOT in the best position to advance project funding for KM, all whilst LM advances in the background.

**Earnings Forecast**

Year end 30 June	2023a	2024e	2025e	2026e
Sales (A\$m)	1	0	0	260
EBITDA (A\$m)	-9	-7	-7	204
NPAT (reported) (A\$m)	-11	-7	-11	142
NPAT (adjusted) (A\$m)	-11	-7	-11	142
EPS (adjusted) (eps)	(0.8)	(0.4)	(0.4)	5.4
EPS growth (%)	-23%	-55%	12%	-1436%
PER (x)	-54.7 x	-122.0 x	-109.3 x	8.2 x
FCF Yield (%)	-2%	-1%	-5%	3%
EV/EBITDA (x)	-90.1 x	-109.6 x	-121.3 x	4.0 x
Dividend (eps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-31%	-25%	-14%	85%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Company overview

## Lotus Resources Ltd (LOT)

LOT is an ASX listed resources company with a focus on uranium projects in Africa. LOT acquired the Kayelekera uranium project from Paladin Energy Ltd (PDN) in 2020. In November 2023 LOT merged with A-CAP Energy (ACB, delisted), and thus acquired the Letlhakane uranium and Wilconi nickel projects.

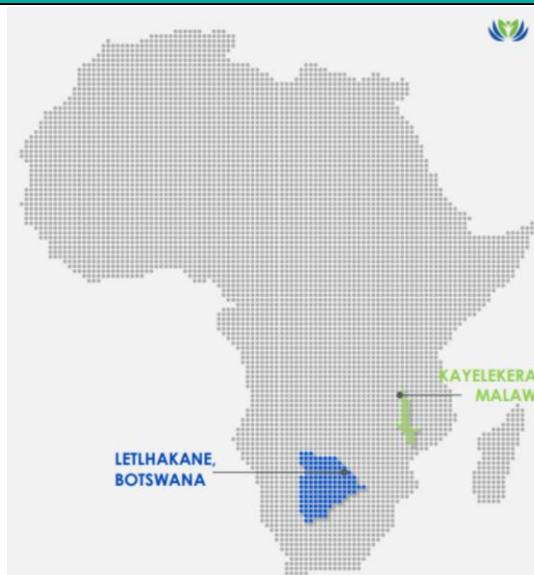
## Portfolio overview

**Kayelekera** is a restart uranium project in Malawi with a current 23Mlb Ore Reserve and a 46.3Mlb Mineral Resource. The project operated between 2009 and 2014, during which it produced ~11Mlbs U<sub>3</sub>O<sub>8</sub>. It was subsequently placed on care and maintenance in 2014 by owner Paladin Energy (PDN). In 2020, LOT purchased the asset from PDN, initially acquiring a 65% interest in the project with a third party before buying the remaining 20% stake (with the Malawian Govt having a 15% free carry interest). LOT conducted a scoping study in 2020 followed by a definitive feasibility study (DFS) in 2022 for Kayelekera. Key changes to the historical operating method at the asset are anticipated to 1) include a front-end beneficiation circuit, upgrading the mill feed grade and decreasing reagent consumption, 2) include a diversified power mix drawing on grid, steam turbine, solar and battery and diesel generators vs the historical diesel only model and 3) the inclusion of an acid recovery system to recycle acid from the back-end elution circuit to the front-end leaching circuit thereby reducing overall acid requirements.

**Letlhakane** is a greenfield uranium project located in Botswana which LOT secured in the merger with A-CAP Energy in 2023. Letlhakane has a current Mineral Resource Estimate of 190Mlbs at an average grade of 321ppm (utilising a 200ppm cut-off grade). In 2015 A-CAP released a feasibility study for the project, which hypothesised a two-stage heap leach operation. LOT plan to optimise the Letlhakane project by focusing on higher-grade components of the ore body and implementing findings from its Kayelekera project, specifically around beneficiation, with a focus on increasing plant feed grades.

**Non-core assets** include the Wilconi nickel project, picked up in the ACB merger. We believe LOT will look to divest this asset in due course.

Figure 1 - Lotus portfolio overview



SOURCE: COMPANY DATA

# Valuation & Recommendation

## Recommendation

We maintain a Speculative Buy recommendation and our valuation lifts to \$0.60/sh (previously \$0.50/sh) in this note. Our valuation lift comes from an extension of potential operations at LM beyond our initial forecast (initial LOM production of 61Mlbs). We see positive catalysts at KM including 1) MDA finalisation, 2) FID and 3) offtake negotiations. Successful navigation of these hurdles will place LOT in the best position to advance project funding for KM, all whilst LM advances in the background.

## Valuation

Our valuation for LOT is based upon the risk adjusted NPV<sup>10%</sup> of our forecast free cash flow from the Kayelekera and Letlhakane projects. We have included a notional exploration value to account for an extension to operations at Kayelekera through additional exploration at Livingstonia and for additional discoveries. We have deducted the present value of future corporate costs. We make an assumption around near-term capital requirements for Kayelekera which provides a post capital dilution valuation for the business. We have rounded our SOTP valuation to the nearest 5c.

**Table 1 - LOT Sum-of-the-parts valuation**

<b>Ordinary Shares (basic)</b>	m	1,831
Options in the money	m	28
<b>Diluted</b>	m	1,859
<b>Sum-of-the-parts</b>	<b>A\$m</b>	<b>A\$/sh</b>
Kayelekera - NPV 10%, 90% risked	\$512	\$0.28
Letlhakane - NPV 10%, 60% risked	\$588	\$0.32
Exploration/ Other/ Kayelekera extension	\$100	\$0.05
Corporate overheads	-\$60	\$(0.03)
<b>Subtotal</b>	<b>\$1,141</b>	<b>\$0.62</b>
Net cash (debt)	\$38	\$0.02
<b>Total undiluted</b>	<b>\$1,179</b>	<b>\$0.64</b>
Cash from options	\$-	\$-
<b>Total diluted (unfunded)</b>	<b>\$1,179</b>	<b>\$0.63</b>
Assumed raise - (\$0.4 x 140m shares)	\$54	1999 m
<b>Total diluted + funded</b>	<b>\$1,233</b>	<b>\$0.62</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Investment risks

Risks include, but are not limited to:

- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of exploration, development and operating resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Infrastructure access.** Bulk commodity producers are particularly reliant upon access to transport infrastructure. Access to infrastructure is often subject to contractual agreements, permits, and capacity allocations. Agreements are typically long-term in nature (+10 years). Infrastructure can be subject to outages as a result of weather events or the actions of third party providers.
- **Operating and capital cost fluctuations.** Markets for exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour markets.
- **Resource growth and mine life extensions.** Future earnings forecasts and valuations may rely upon resource and reserve growth to extend mine lives.
- **Sovereign risks.** Mining companies' assets can be located in countries other than Australia and are subject to the sovereign risks of that country.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **Environmental risks.** Resources companies are exposed to risks associated with environmental degradation as a result of their exploration and mining processes. Fossil fuel producers (coal) may be particularly exposed to the environmental risks of end markets including the electricity generation and steel production industries.
- **Operating and development risks.** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single operation company. Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Occupational health and safety risks.** Mining companies are particularly exposed to OH&S risks given the physical nature and human resource intensity of operating assets.
- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments, and managing debt repayments.
- **Merger/acquisition risks.** Risks associated with value transferred during merger and acquisition activity.
- **COVID-19 risks:** Mining companies' rely on freedom of movement of workforces, functioning transport routes, reliable logistics services including road, rail, aviation and ports in order to maintain operations and get their products to market. They also rely on liquid, functioning markets to sell their products. Measures being put in place to combat the COVID-19 pandemic are posing risks to these conditions.

Table 2 - Financial summary

ASSUMPTIONS								FINANCIAL RATIOS									
Year Ending June	Unit	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E	Year Ending June	Unit	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E		
<b>COMMODITY PRICE</b>								<b>VALUATION</b>									
Spot U308	US\$/lb	35	53	51	89	124	130	NPAT	A\$/m	(6)	(13)	(11)	(7)	(11)	142		
Term U308	US\$/t	34	44	53	76	116	130	Reported EPS	Ac/sh	(0.6)	(1.1)	(0.8)	(0.4)	(0.4)	5.4		
AUD/USD	A\$/US\$	0.75	0.72	0.67	0.65	0.69	0.70	Adjusted EPS	Ac/sh	(0.6)	(1.1)	(0.8)	(0.4)	(0.4)	5.4		
<b>PRODUCTION &amp; COST</b>								<b>LIQUIDITY &amp; LEVERAGE</b>									
Production	Mlbs	-	-	-	-	-	1.4	Net debt (cash)	\$m	(15)	(5)	(16)	(8)	76	(2)		
C1 Operating cost	US\$/lb	-	-	-	-	-	23	ND / E	%	-66%	-33%	-46%	-31%	109%	-1%		
<b>PROFIT AND LOSS</b>								<b>ORE RESERVES AND MINERAL RESOURCES</b>									
Year Ending June	Unit	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E	Kayelekera Project (100%)									
Revenue	A\$/m	0.2	2.6	1.2	0.0	0.0	260.1	Mineral Resources									
Expense	A\$/m	(6.1)	(15.4)	(10.0)	(7.3)	(7.3)	(56.6)	Measured									
EBITDA	A\$/m	(5.9)	(12.8)	(8.8)	(7.3)	(7.3)	203.5	Indicated									
Depreciation	A\$/m	(0.0)	(0.0)	(0.0)	0.0	0.0	(11.3)	Inferred									
EBIT	A\$/m	(5.9)	(12.8)	(8.8)	(7.3)	(7.3)	192.2	Total									
Net interest expense	A\$/m	0.0	(0.1)	(1.6)	0.0	(4.0)	(5.3)	Ore Reserves									
Unrealised gains (Impairments)	A\$/m	0.0	0.0	0.0	0.0	0.0	0.0	Proven									
Other	A\$/m	0.0	0.0	0.0	0.2	0.7	0.2	Probable									
PBT	A\$/m	(5.9)	(13.0)	(10.3)	(7.1)	(10.6)	187.1	Total									
Tax expense	A\$/m	0.0	0.0	(0.2)	0.0	0.0	(45.5)	DCF VALUATION									
NPAT (reported)	A\$/m	(5.9)	(13.0)	(10.6)	(7.1)	(10.6)	141.6	Ordinary shares (m)							1,831		
NPAT (underlying)	A\$/m	(5.9)	(13.0)	(10.6)	(7.1)	(10.6)	141.6	Options in the money (m)							28		
<b>CASH FLOW</b>								<b>Sum-of-the-parts valuation</b>									
Year Ending June	Unit	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E	Current + 12 months + 24 months									
<b>OPERATING CASHFLOW</b>								\$m	\$/sh	\$m	\$/sh	\$m	\$/sh				
Receipts	A\$/m	0.0	0.0	0.0	(0.0)	0.0	174.5	Kayelekera - NPV 10%, 90% risked	512	0.28	663	0.36	730	0.40			
Payments	A\$/m	(2.7)	(6.2)	(3.3)	(5.4)	(5.2)	(80.7)	Lethakane - NPV 10%, 60% risked	588	0.32	588	0.32	588	0.32			
Tax	A\$/m	0.0	0.0	(0.2)	0.0	0.0	(7.5)	Corporate overheads	(60)	(0.03)	(60)	(0.03)	(60)	(0.03)			
R&D + Exploration	A\$/m	(3.9)	(3.9)	(5.7)	(2.2)	(2.2)	(0.5)	Subtotal	1,141	0.62	1,191	0.65	1,258	0.69			
Other	A\$/m	0.1	0.1	0.9	0.0	0.0	0.0	Net cash (debt)	38	0.02	8	0.00	(76)	(0.04)			
Operating cash flow	A\$/m	(6.5)	(10.0)	(8.3)	(7.5)	(7.4)	85.8	Total (undiluted)	1,179	0.64	1,200	0.66	1,181	0.65			
<b>INVESTING CASHFLOW</b>								Add Options in the money (m)									
Property, plant and equipment	A\$/m	(0.0)	1.1	(0.5)	0.0	(128.2)	(2.7)	Add cash	-	-	-	-	-	-			
Mine development	A\$/m	0.0	(0.0)	0.0	0.0	0.0	0.0	Total (diluted)	1,179	0.63	1,200	0.65	1,181	0.64			
Other	A\$/m	(1.3)	(2.7)	(4.5)	0.0	0.0	0.0	Assumed raise - (\$0.4 x 140m shares)	54		54		54				
Investing cash flow	A\$/m	(1.3)	(1.6)	(5.0)	0.0	(128.2)	(2.7)	Total diluted + funded	1,233	0.62	1,254	0.63	1,236	0.62			
Free Cash Flow	A\$/m	(7.8)	(11.6)	(13.4)	(7.5)	(135.5)	83.1	<b>CAPITAL STRUCTURE</b>									
<b>FINANCING CASHFLOW</b>								Shares on issue									
Share issues/(buy-backs)	A\$/m	17.4	0.2	25.0	0.0	55.9	0.0	Escrow shares / other	m							1,831	
Debt proceeds/ (repayments)	A\$/m	0.0	0.0	0.0	0.2	(3.3)	(5.1)	Total shares on issue	m							1,831	
Dividends	A\$/m	0.0	0.0	0.0	0.0	0.0	0.0	Share price	A\$/sh							0.45	
Other	A\$/m	3.5	0.9	(0.9)	0.0	79.8	0.0	Market capitalisation	A\$/m							806	
Financing cash flow	A\$/m	20.9	1.1	24.1	0.2	132.3	(5.1)	Net cash	A\$/m							38	
Change in cash	A\$/m	13.1	(10.5)	10.8	(7.3)	(3.2)	78.0	Enterprise value (undiluted)	A\$/m							767	
<b>BALANCE SHEET</b>								Options outstanding (m)									
Year Ending June	Unit	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E	m									28
<b>ASSETS</b>								Options in the money (m)									
Cash & short term investments	A\$/m	14.8	4.9	15.5	8.2	5.0	83.0	m									28
Accounts receivable	A\$/m	0.0	0.0	0.0	0.0	0.0	85.5	Issued shares (diluted for options)	m								1,859
Property, plant & equipment	A\$/m	0.0	0.0	0.0	0.0	128.2	119.6	Market capitalisation (diluted)	m								794
Mine development expenditure	A\$/m	59.8	46.3	39.5	39.5	39.5	39.5	Net cash + options	A\$/m								-
Exploration & evaluation	A\$/m	13.6	0.0	0.0	0.0	0.0	0.0	Enterprise value (diluted)	A\$/m								755
Other	A\$/m	0.7	15.4	16.7	16.7	16.7	41.4	<b>MAJOR SHAREHOLDERS</b>									
Total assets	A\$/m	88.9	66.6	71.8	64.5	189.4	369.1	Shareholder	%								m
<b>LIABILITIES</b>								Sherke Holdings Ltd									
Accounts payable	A\$/m	0.6	1.7	0.8	0.6	0.5	0.5	7%									132.1
Income tax payable	A\$/m	0.0	0.0	0.0	0.0	0.0	38.1	ALPS Advisors, Inc	6%								118.9
Borrowings	A\$/m	0.0	0.0	0.0	0.0	81.4	81.4	Grant Burnamford Davey	6%								103.8
Other	A\$/m	65.9	50.1	37.3	37.3	37.3	37.3	Macquarie Group Ltd	6%								100.8
Total liabilities	A\$/m	66.5	51.8	38.1	37.8	119.2	157.2										455.7
Net Assets	A\$/m	22	15	34	27	70	212										
<b>SHAREHOLDER'S EQUITY</b>																	
Share capital	A\$/m	78.1	114.9	143.5	143.5	197.8	197.8										
Reserves	A\$/m	0.3	(31.0)	(31.6)	(31.6)	(31.6)	(31.6)										
Retained earnings	A\$/m	(56.4)	(68.4)	(76.9)	(82.2)	(90.1)	16.1										
Minority Interests	A\$/m	0.4	(0.8)	(1.4)	(3.2)	(5.8)	29.6										
Total equity	A\$/m	22	15	34	27	70	212										
Weighted average shares	m	1,006	1,326	1,412	1,936	2,600	2,600										

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

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**Research Team**

Staff Member	Title/Sector	Phone	@bellpotter.com.au
Chris Savage	Head of Research/Industrials	612 8224 2835	csavage
<b>Analysts</b>			
John Hester	Healthcare	612 8224 2871	jhester
Martyn Jacobs	Healthcare	613 9235 1683	mjacobs
Thomas Wakim	Healthcare	612 8224 2815	twakim
Michael Ardrey	Industrials	613 9256 8782	mardrey
Marcus Barnard	Industrials	618 9326 7673	mbarnard
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
Joseph House	Industrials	613 9325 1624	jhouse
Daniel Laing	Industrials	612 8224 2886	dlaing
Hayden Nicholson	Industrials	613 9235 1757	hnicolson
Chami Ratnapala	Industrials	612 8224 2845	cratnapala
Jonathan Snape	Industrials	613 9235 1601	jsnape
Connor Eldridge	Real Estate	612 8224 2893	celdridge
Andy MacFarlane	Real Estate	612 8224 2843	amacfarlane
Regan Burrows	Resources	618 9236 7677	rburrows
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9325 1856	showe
Brad Watson	Resources	618 9326 7672	bwatson
James Williamson	Resources	613 9235 1692	jwilliamson
<b>Associates</b>			
Leo Armati	Associate Analyst	612 8224 2846	larmati
Baxter Kirk	Associate Analyst	613 9235 1625	bkirk
Kion Sapountzis	Associate Analyst	613 9235 1824	ksapountzis
Ritesh Varma	Associate Analyst	613 9235 1658	rvarma

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#### **Bell Potter Securities Limited**

ABN 25 006 390 772  
Level 29, 101 Collins Street  
Melbourne, Victoria, 3000  
Telephone +61 3 9256 8700  
www.bellpotter.com.au

#### **Bell Potter Securities (HK) Limited**

Room 1601, 16/F  
Prosperity Tower, 39 Queens  
Road Central, Hong Kong, 0000  
Telephone +852 3750 8400

#### **Bell Potter Securities (US) LLC**

Floor 39  
444 Madison Avenue, New York  
NY 10022, U.S.A  
Telephone +1 917 819 1410

#### **Bell Potter Securities (UK) Limited**

16 Berkeley Street London, England  
W1J 8DZ, United Kingdom  
Telephone +44 7734 2929