

Lotus Resources Limited

Specialty Minerals and Metals

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Rating
SPECULATIVE BUY

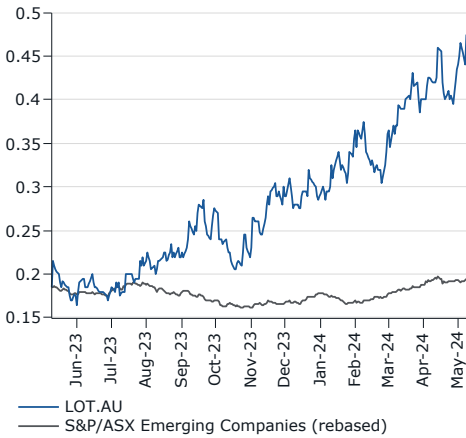
Price Target
A\$0.54

LOT-ASX

Price
A\$0.46

Market Data

52-Week Range (A\$) :	0.17 - 0.48
Avg Daily Vol (000s) :	6,281.41
Shares Out. (M) :	1,831.2
Market Cap (A\$M) :	842.4
Dividend /Shr (A\$) :	0.00
Dividend Yield (%) :	0.0



Source: FactSet

Priced as of close of business 8 May 2024

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.

Canaccord Genuity received a fee for its role as Lead Manager to Lotus's \$30m equity raise at \$0.30 on 23 February 2024.

Letlhakane resource refresh

LOT has prepared a pit constrained Mineral Resource Estimate (MRE) for its Letlhakane asset in Botswana. This is the first MRE that LOT has prepared for the asset; the last MRE released in 2015.

At the headline level, the resource estimate has been reduced to 118.2Mlb U3O8 (345ppm) vs. the prior estimate of 190.4Mlb U3O8 (321ppm).

Importantly, the current indicated resource estimate of 34.4Mlb is similar to the previous MRE. Additionally, the current MRE remains well above the 80Mlb we use in our DCF valuation (risked at 25%).

Looking to increase confidence and lower costs...

With this resource refresh now completed, the company's focus will shift to improving Letlhakane's value proposition through improvement in the following areas:

1. Increasing the head grade of feed material to the mill through a combination of resource high grading and beneficiation.
2. Identifying an alternate process flowsheet to increase the uranium recovery and reduce acid consumption, a significant contributor to plant operating costs.
3. Conducting an infill drill program to convert the Inferred material to a Measured and Indicated (M&I) level, allowing more accurate definition of higher grade zones within the Measured and Indicated resources.

...and targeting delivery of a Scoping Study in CY24

Our \$275mn valuation of Letlhakane (25% risking) assumes a long-term U3O8 price of US\$90/lb and AUD/USD of 0.68. While our DCF is heavily predicated on A-Cap's dated 2015 study, we have applied a 50% inflation allowance to its upfront capex estimate. The key outcomes of the 2015 study were:

- Initial construction capex of US\$351mn (CGe US\$527mn).
- Production target 3.75Mlb U3O8 p.a. over first five years.
- Operating costs of US\$35/lb U3O8 over first five years and approximately \$40/lb U3O8 over 18-year process life.

Our valuation equates to US\$1.50/lb of resource, a significant discount to the explorer/developer peer group which is trading at an average of US\$2.3/lb.

Appendix: Important Disclosures

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Investment Recommendation

Date and time of first dissemination: May 08, 2024, 19:50 ET

Date and time of production: May 08, 2024, 19:50 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

Distribution of Ratings:

Global Stock Ratings (as of 05/08/24)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	618	66.81%	22.82%
Hold	137	14.81%	9.49%
Sell	12	1.30%	8.33%
Speculative Buy	150	16.22%	48.00%
	925*	100.0%	

*Total includes stocks that are Under Review

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HOLD: The stock is expected to generate returns from -10% to 10% during the next 12 months.

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NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

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*As of January 1, 2024, the Ratings History Chart will reflect the new Canaccord Genuity Ratings System as defined above.

Risk Qualifier

SPECULATIVE: The stock bears significantly above-average risk and volatility. Investments in the stock may result in material loss.

12-Month Recommendation History (as of date same as the Global Stock Ratings table)

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

Canaccord Genuity received a fee for its role as Lead Manager to Lotus's \$30m equity raise at \$0.30 on 23 February 2024.

Lotus Resources Limited Rating History as of 05/07/2024



Past performance

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