Lake Resources "should trade at premium to peers due to lower environmental impact development plans": Roth Capital Partners

Emma Davies
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The company's aims to complete the DFS and an ESIA during 2021 and be in a position to fund and develop Kachi by the end of the year.

Roth Capital has given the company a price target of A$0.60

Lake Resources NL (ASX:LKE) (OTCMKTS:LLKKF) (FRA:LK1) has been flagged by Roth Capital Partner's Joe Reagor as on the cusp of developing its Kachi Project in Argentina, with the broker giving the company a BUY rating and a A$0.60 price target.

Shares today have traded up to A$0.425 and the company's market cap is approximately A$359.2 million.

Reagor said: "Given our view that LKE's process has a low environmental impact, we believe it should trade at a premium to conventional brine projects.

"Ultimately, we believe the majority of the company's current market value is assigned to the Kachi project and that there is significant potential to generate shareholder value through exploration at its other projects."

Along with its flagship Kachi project, the company also has three brine projects (Cauchari, Olaroz, and Paso) in the heart of the lithium triangle and a pegmatite project in the Catamarca Province of Argentina.

Cleaner lithium production

The broker said: "We believe that as demand for EVs increases it is likely consumers will become focused on the entire supply chain of the car they are purchasing.

"We believe EV manufacturers see this demographic shift on the horizon and have begun to look to invest in lithium

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impact.

“This will lead to significantly higher valuations for lithium companies that either have a low-impact production process or that are located in first world countries that require higher environmental standards.

“We also believe that the process Lake Resources is planning to use at Kachi has one of the lowest environmental impacts possible based on currently available technologies.”

Direct extraction process

While most of the developed lithium assets in the Lithium Triangle produce using solar evaporation ponds, LKE intends to use a proprietary direct extraction process in partnership with Lilac Solutions.

The direct extraction process works by pumping lithium brine to the surface and then extracting lithium before returning the majority of the brine back to the ground.

This process has a much lower environmental impact with other benefits including a smaller surface footprint, a cleaner and purer form of lithium produced and a scalable process.

The broker said: “Given the significant benefits that direct extraction has as compared to traditional evaporation, we believe that it is likely that direct extraction will become the dominant process for producing lithium from brine resources in the future.

“In our view, companies like LKE simply need to demonstrate proof of concept at a commercial scale before the industry looks to move in that direction.

“Lake Resources is at the forefront of commercialising this process and that the company has a first-mover advantage in the lithium triangle, in our view."

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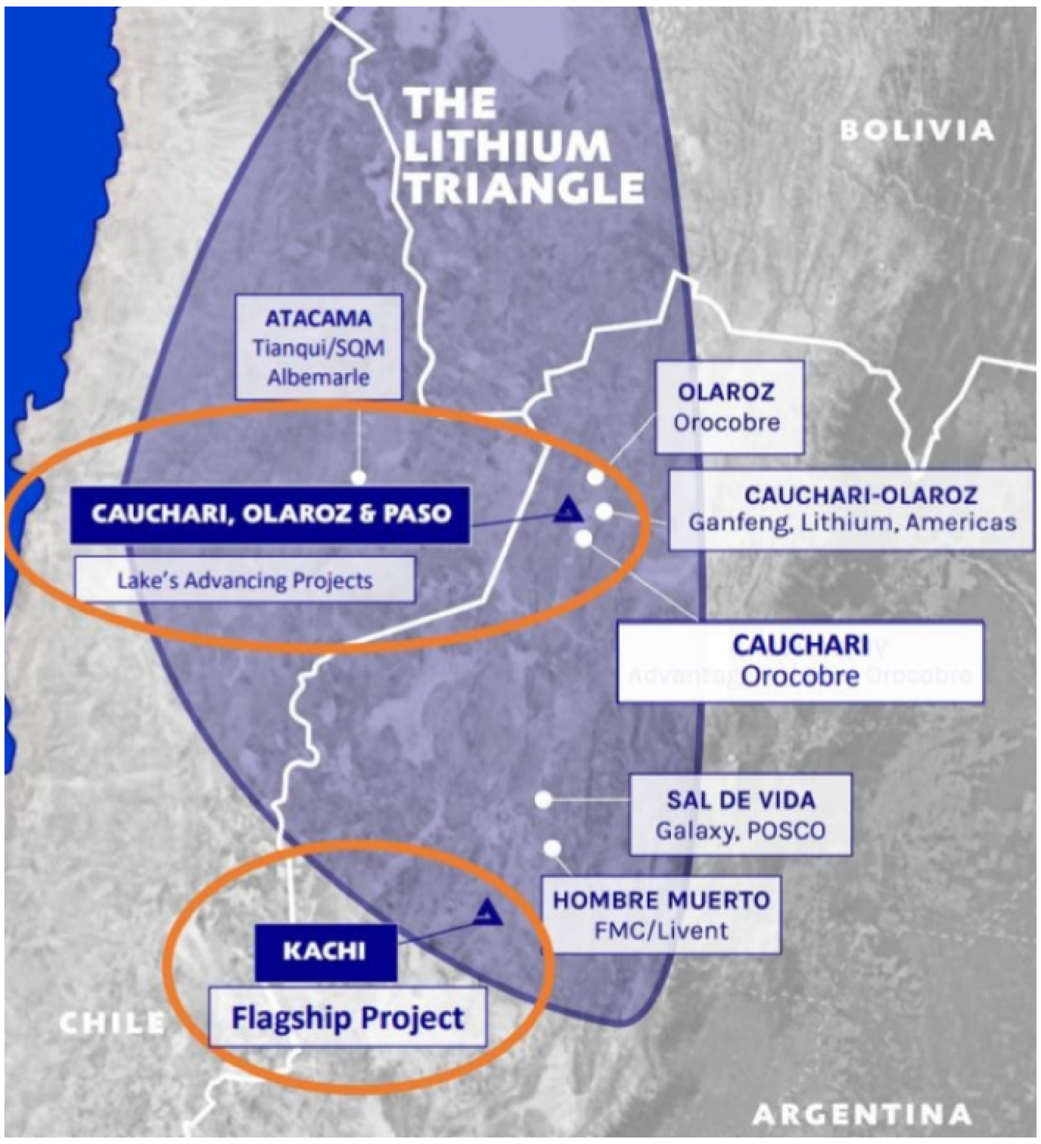


Project location map

Other projects provide upside potential

The company's Cauchari, Olaroz, and Paso projects in Argentina neighbour the existing evaporation production operations of Orocobre Limited (ASX:ORE) (OTCMKTS:OROCF) (TSE:ORL) (FRA:3O1) and the in development Lithium Americas Corp (NYSE:LAC) (TSE:LAC) (FRA:WUC1) and Ganfeng JV.

Reagor stated: "Given these projects neighbour existing brine resources, we believe it is likely they could also contain significant lithium deposits.

"In order to unlock this potential, the company intends to spend A$1.0 million on exploration at the projects in 2021.

"Based on the results of this work, we would anticipate an increase in future exploration budgets."

Notably, the Catamarca project is a pegmatite style deposit while the region has a history of small scale production of lithium spodumene.

The broker said: "Ultimately, we believe this project is last in the queue for the company as it would not be amenable to brine extraction technologies.

"For the combination of these assets and the future optionality they provide, we assign a value of A$50 million."

Kachi development decision

In 2020, the company released a PFS that showed an after-tax

The PFS also called for an initial capital budget of US$544 million, an operating cost of $4,178 per tonne LCE, and an initial mine life of 25 years, which only consumes the indicated portion of the company's resource estimate.

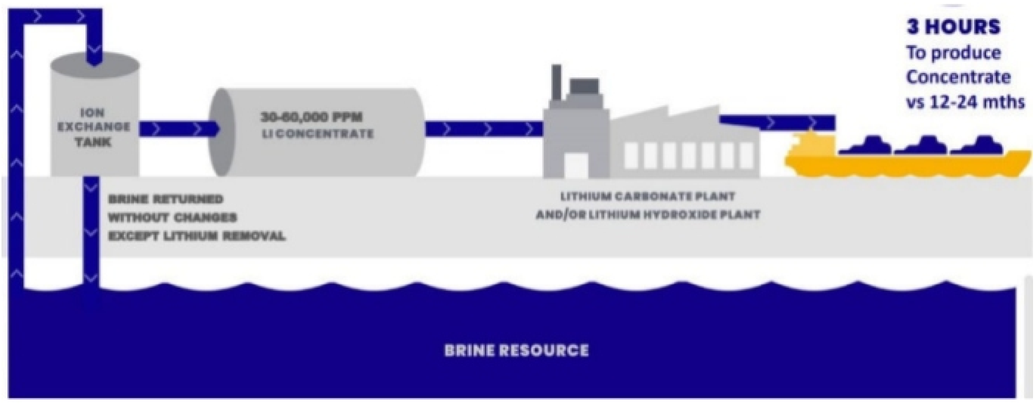
Reagor said: "Our initial valuation of the company is based on the company's PFS.

"Normally at PFS-stage, we would assign a valuation of 30-50% of after-tax NPV, but in the case of LKE we have elected to assign a valuation of 60% because of our anticipation of a market premium."

The company is now in process on a DFS with an estimated cost of US$10 million.

As part of the DFS, the company is operating a pilot facility in California and a demonstration plant on-site to produce five tonnes of lithium carbonate.

The company's goal is to complete the DFS and an ESIA during 2021 and be in position to fund and develop Kachi by year-end.



Lake's direct extraction process

Lithium price outlook

Given the backdrop of continued demand growth in EVs in the future, it is likely that lithium prices will see upward pressure, however, the broker retains a bullish outlook for the price of lithium, with lithium demand likely to outpace supply growth over the next decade.

"In the longer-term, we believe the price of lithium carbonate will average $12,000 per tonne, while we estimate a price of $14,000 per tonne for lithium hydroxide.

"We note this is significantly above current reported prices of approximately $6,000 and $7,000, respectively.

"However, we note that EV sales growth was muted in 2020 due to the pandemic."

The term 'reported' is used because lithium price realizations are not readily available and that the quality of lithium products is not consistent, meaning there tends to be large variations in reported pricing.

Reagor said: "While we use these prices for the basis of evaluating lithium projects, we note it is likely that lithium development companies will look to sign offtake agreements with battery manufacturers, which would then stabilize the pricing they receive.

"However, if our view that EV demand will significantly outpace lithium production growth over the next 10 years comes to fruition, it is likely that there will be periods where spot prices of lithium spike significantly above our medium-and-long-term forecasts.

"We believe this provides further upside for lithium stocks compared to our estimates and valuations."

Lake Resources risk outlook

Reagor noted the following risk outlooks for the company

- Political risk - Although most mining jurisdictions have known laws, potential exists for these laws to change, and LKE has similar political risk to other companies in the lithium triangle in Argentina;
- Commodity price risk - This risk is not only related to final products, but can also be in regards to input costs and substitute goods. LKE's most significant commodity price risk is to that of lithium, but the company is also likely to have other commodity price risks like to that of the price of energy;
- Operational and technical risk - Despite completing resource estimates, deposits can still vary significantly compared to expectations and unforeseeable issues can occur with operations and exploration activities. LKE has similar operational and technical risks to other direct extraction technology companies;
- Pre-revenue risk - There can be no guarantee that LKE will ever produce r[illegible] cash flow [illegible] as such, it is likely the company will need to raise additional capital; and
- Market risk - Although most natural resource companies are more closely tied to individual commodity price performance, large business cycle forces or economic crises can impact a company's valuation significantly. LKE has similar market risk to other lithium development companies.

Quick facts: Lake Resources NL **Price:** 0.405 AUD

ASX:LKE

Market: ASX **Market Cap:** $409.74 m **Follow**

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