Update Report
Lake Resources (ASX:LKE)
Interest received for funding

LKE Price: $0.62 | LKE Valuation: $0.98 | Implied Return: 58% | 16 August, 2021

Company
Lake Resources (LKE) owns 74,000 hectares in the lithium triangle in Argentina. LKE aims to use a cost competitive, efficient ion-exchange direct lithium extraction technology to produce high margin, high purity (99.97%) lithium to be sold to battery makers. Testing in coin cells by Novonix Limited (ASX:NVX, OTCQX:NVNXF) showed LKE’s product yielded similar voltage profiles, improved capacity retention and better electrochemical behavior compared to commercially available product from tier 1 producers.

Business Update
LKE has received an expression of interest to fund the construction of the Kachi Lithium project from UK Export Finance, the export credit agency of the United Kingdom. The financing would cover 70% of the total funding required for the project and would also support the expansion of production to 50,000t per annum of high purity lithium carbonate equivalent. The financing would likely result in a lower cost of capital than traditional financing packages with the principal to be repaid over an 8.5 year period.

The expression of interest from UK Export Finance further de-risks and lends validity to the project and underscores the increased demand for lithium which is expected to cause a supply deficit from next year. It is not surprising that we have seen increased consolidation in the lithium sector. Chinese companies have been particularly active with Gainfeng Lithium also planning a battery factory in Argentina. Domestically, Orocobre Limited (ASX:ORE) and Galaxy Lithium (ASX:GXY) are finalising a merger which will form a new $4bn lithium company.

Underpinning the doubling of production, LKE is currently undertaking a 1,600m drilling program which will also include a sampling and pump testing program. At the conclusion of the drilling program, the current total resource of 4.4Mt LCE will upgrade the Measured & Indicated (M&I) portion to a reserve and the Inferred portion to M&I. The upgrade will be included in the definitive feasibility study to be completed Q1 2022. LKE has a cash balance of $26m which should see the company through to construction phase next year.

Valuation
The interest in funding Kachi by UK Export Finance has given us more clarity on the pathway to production and thus we have feel there is enough data to update our valuation model. Current drilling should underpin doubling of production to around 50,000t lithium equivalent but it won’t be without additional costs and thus we have increased the capex needed by 60%. The increase in production and funding of 70/30 debt/equity sees our valuation rise to $0.98. The valuation takes into account increased dilution for the equity component and debt for the remainder. As the project moves from strength to strength we expect an offtake agreement could happen as soon as this year.
The valuation is most sensitive to lithium spot price movements. Every US$1,000/t movement gives a +20% variation to our valuation. Current spot price for lithium sits at US$13,000/t. In our sensitivity study, a price range of US$11,000/t to US$15,000/t sees the valuation range from $0.47 to $1.50.
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