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 Ganfeng 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.

Company Data

Recommendation: BUY
Price (Date 16-08): $0.62
ASX Code: LKE
Shares on Issue: 1.089bn
Market capitalization: $675m
Enterprise Value: $649m
12-month price range: $0.03-$0.68

Board Structure

Stephen Promnitz: Managing Director
Stuart Crow: Non-Exec Chairman
Dr. Nicholas Lindsay: Executive Director
Dr. Robert Trzebski: Non-Exec Director
Amalia Saenz: Non-Exec Director

Major Shareholders

Citicorp Nominees: 8.61%
Merrill Lynch Nominees: 4.58%
Acuity Capital Investment: 3.67%
Total Top 20: 36.06%

12-month Chart

Source: Iress

Valuation parameters

Lithium mined tonnes p.a.	50,808
Average grade (mg/L)	250
Capex ($USm)	870.4
Lithium Price ($US/t)	13,000
Recovery rate	83%
USD/AUD	0.8
Discount rate	8%
Value per share	**$0.98**

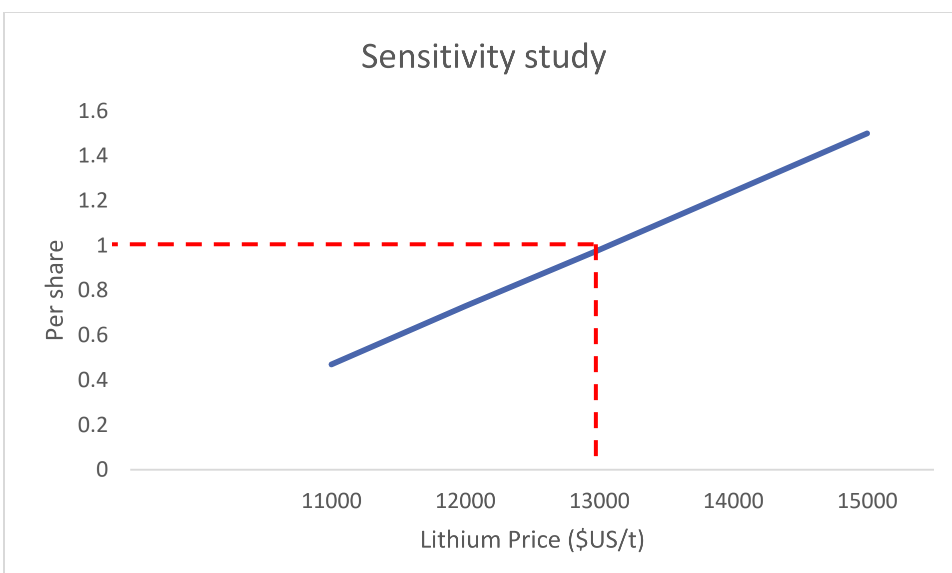
LODGE PARTNERS

Mining scenario

				Lake Kachi Project											
Financial Year	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
Mine Rate (million cubic metre per annum)						46	46	46	46	46	46	46	46	46	46
Grade (mg/L)						250	250	250	250	250	250	250	250	250	250
Tonnes mined						11500	11500	11500	11500	11500	11500	11500	11500	11500	11500
Mining conversion to LCE @ 5.323						61215	61215	61215	61215	61215	61215	61215	61215	61215	61215
Lithium Recovered						50808	50808	50808	50808	50808	50808	50808	50808	50808	50808
Revenue (US$M)						661	661	661	661	661	661	661	661	661	661
Opex (US$/t)						4178	4178	4178	4178	4178	4178	4178	4178	4178	4178
Opex (US$M)						212	212	212	212	212	212	212	212	212	212
Admin, etc						18	18	18	18	18	18	18	18	18	18
EBITDA						430	430	430	430	430	430	430	430	430	430
D&A						3	3	3	3	3	3	3	3	3	3
EBIT						427	427	427	427	427	427	427	427	427	427
Royalty						19.8	19.8	19.8	19.8	19.8	19.8	19.8	19.8	19.8	19.8
Tax						101.9	101.9	101.9	101.9	101.9	101.9	101.9	101.9	101.9	101.9
NPAT (US$M)						305.6	305.6	305.6	305.6	305.6	305.6	305.6	305.6	305.6	305.6
Capex (US$M) & sustaining capex				870.4		46.8	46.8	46.8	46.8	46.8	46.8	46.8	46.8	46.8	46.8
Tax Paid						121.7	121.7	121.7	121.7	121.7	121.7	121.7	121.7	121.7	121.7
Cashflow				-870.4		244.9	244.9	244.9	244.9	244.9	244.9	244.9	244.9	244.9	244.9

NPV (US$M)	$1,768
NPV (AUD$M)	$2,209.68
IRR	28%
Shares on issue (diluted)	1150
A$/share (pre-capex)	$1.92
Cash raised toward capex ($AUm)	326.4
Shares on issue after dilution	1802.8
NPV minus year 0 debt	1448
Value/Share at start mining	$0.98

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.



Disclaimer

In accordance with section 949A of the Corporations Act 2001, any recipient of the information contained in this document should note that information is general advice in respect of a financial product and not personal advice. Accordingly the recipient should note that: (a) the advice has been prepared without taking into account the recipient's objectives, financial situations or needs; and (b) because of that, the recipient should, before acting on the advice consider the appropriateness of the advice, having regard to the recipient's objectives, financial situation and needs.

Although Lodge Partners Pty Ltd ("Lodge") consider the advice and information contained in the document is accurate and reliable, Lodge has not independently verified information contained in the document which is derived from publicly available sources. Lodge assumes no responsibility for updating any advice or recommendation contained in this document or for correcting any error or admission which may become apparent after the document has been issued. Lodge does not give any warranty as to the accuracy, reliability or completeness of advice or information which is contained in this document. Except in so far as liability under any statute cannot be excluded, Lodge, its employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

General Securities Advice Warning

This report is intended to provide general securities advice. In preparing this advice, Lodge did not take into account the investment objectives, the financial situation and particular needs of any particular person. Before making an investment decision on the basis of this advice, you need to consider, with or without the assistance of a securities adviser, whether the advice is appropriate in light of your particular investment needs, objectives and financial circumstances.

Disclosure of Interests

Lodge has earned and will continue to earn broking commissions by acting for individual clients that are buying or selling their shares in company. The Company currently is, or in the past 12 months was, a client of Lodge Partner's affiliated company and authorised representative Lodge Corporate Pty Ltd. During this period, Lodge Corporate provided investment banking services to the company. In the past 12 months, Lodge Corporate have received compensation for Investment Banking services from the company. Lodge Corporate intends to seek or expect to receive compensation for Investment Banking services from the Company in the next three months.

Analyst Verification

I verify that I, Sven Restel, have prepared this research report accurately and that any financial forecasts and recommendations that are expressed are solely my own personal opinions. In addition, I certify that no part of my compensation is or will be directly or indirectly tied to the specific recommendation or financial forecasts expressed in this report. I do not currently own any shares in the Company.

Contact Lodge Partners

Lodge Partners Pty Ltd
ABN: 25 053 432 769 AFSL: 246271

Melbourne office:
Level 6, 90 Collins Street, Melbourne VIC 3000
T +61 3 9200 7000
lodgepartners.com.au

Sydney office:
Suite 1002, Level 10, 46 Market Street
Sydney, NSW, 2000
T +61 2 9225 4433