

Analyst

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Authorisation

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Lake Resources Ltd (LKE)

Lithium price upgrades

Recommendation
Buy (unchanged)

Price
\$0.915
Valuation
\$1.82 (previously \$1.40)

Risk
Speculative
GICS Sector
Materials
Expected Return

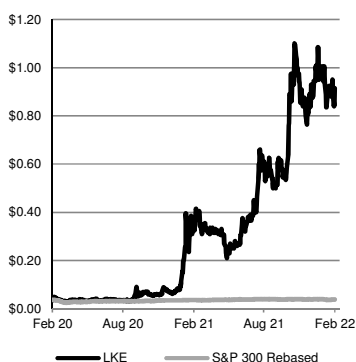
Capital growth	99%
Dividend yield	0%
Total expected return	99%

Company Data & Ratios

Enterprise value	\$1,047m
Market cap	\$1,118m
Issued capital	1,222m
Free float	100%
Avg. daily val. (52wk)	\$7.4m
12 month price range	\$0.205-\$1.185

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.99	1.00	0.32
Absolute (%)	-7.6	-8.5	190.5
Rel market (%)	-5.0	-7.0	184.0

Absolute Price


SOURCE: IRESS

Price upgrades as EVs dominate lithium demand growth

We have materially upgraded our lithium commodity price outlook on the enormous increase in demand expected as electric vehicles (EVs) penetrate the passenger vehicle market over the coming decade. See "Eye on Lithium: Demand to soar on ICE age thaw" (17/02/2022) for a more in-depth analysis of lithium markets.

Table 1 - Lithium price upgrades (% change from previous forecast)

	SC6	Lithium Carbonate	Lithium Hydroxide
2021a	US\$1,102/t	US\$16,155/t	US\$17,221/t
Spot (Fastmarkets)	US\$3,250/t	US\$57,500/t	US\$53,750/t
2022e	US\$3,000/t (+173%)	US\$50,000/t (+163%)	US\$52,000/t (+148%)
2023e	US\$2,500/t (+199%)	US\$40,000/t (+167%)	US\$42,000/t (+155%)
LTe	US\$1,300/t (+53%)	US\$25,000/t (+72%)	US\$29,000/t (+81%)

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES (BATTERY GRADE CARBONATE & HYDROXIDE)

Ambitious production targets; valuation upgrade

LKE has recently announced ambitions to fast-track its portfolio of assets in Argentina to produce 100ktpa of lithium chemicals by 2030. This target is supported by the company's 50ktpa lithium carbonate Kachi Lithium Brine Project where a Definitive Feasibility Study is due for completion in mid-2022.

Lithium price upgrades increase our LKE valuation to \$1.82/sh (previously \$1.40/sh)

Investment view: Buy (Speculative), Valuation \$1.82/sh

LKE's key project is the 50ktpa lithium carbonate Kachi Lithium Brine Project in Argentina. This project is expected to employ direction lithium extraction technology which has enormous ESG benefits compared with incumbent brine and hard rock lithium production methods. With this development project, uncommitted product offtake and an independent share register, LKE has strategic appeal.

LKE is a project development company with prospective operations and cash flows. Our Speculative risk rating recognises this higher level of risk and volatility of returns.

Earnings Forecast

Year end June	2022e	2023e	2024e	2025e
Sales (A\$m)	-	-	191	1,184
EBITDA (A\$m)	(4)	(4)	135	954
NPAT (reported) (A\$m)	(3)	(2)	56	535
NPAT (adjusted) (A\$m)	(3)	(2)	56	535
EPS (adjusted) (cps)	(0.3)	(0.1)	3.3	31.3
EPS growth (%)	na	na	na	835%
PER (x)	-343.8x	-674.7x	27.4x	2.9x
FCF Yield (%)	-1%	-43%	-26%	40%
EV/EBITDA (x)	-261.8x	-261.8x	7.8x	1.1x
Dividend (cps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	-	-	-	-
ROE (%)	-5%	-1%	14%	75%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Lithium price upgrades

Lithium demand: Driven by EV take-up

Our demand model suggests annual LCE (lithium carbonate equivalent) demand could grow from around 500kt currently to over 1.1Mt by 2025 and over 3.2Mt by 2030. We have focussed on passenger EV led lithium demand, with what we consider as conservative assumptions on EV market penetration (50% by 2030), battery capacity and lithium intensity (around 50kg LCE/EV growing to 60kg). We have factored in price destruction of traditional sources of lithium demand and the ramp-up of recycling as the industry matures.

Lithium supply: Constrained response

The challenges to developing lithium supply by far outweigh the metal’s relative abundance. Unlike base metals, this is not a discovery constraint, rather a development constraint. Even with record prices incentivising new supply, there are technical challenges and the lead-times to production are only increasing with permitting, supply chain, geopolitical and ESG restrictions. Brownfield expansions will be similarly constrained and easily accommodated by the growing demand.

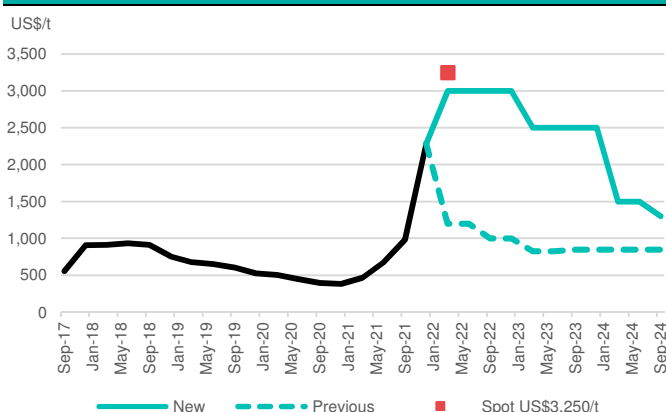
See Bell Potter Securities Research: “Eye on Lithium: Demand to soar on ICE age thaw” (17/02/2022) for further detail.

Table 2 - Lithium commodity price upgrades

	2020a	2021a	2022e	2023e	LTe
New					
Spodumene	431	1,102	3,000	2,500	1,300
Lithium carbonate	7,641	16,155	50,000	40,000	25,000
Lithium hydroxide	9,625	17,221	52,000	42,000	29,000
Previous					
Spodumene			1,100	838	850
Lithium carbonate			19,000	15,000	14,500
Lithium hydroxide			20,966	16,500	16,000
Change %					
Spodumene			173%	199%	53%
Lithium carbonate			163%	167%	72%
Lithium hydroxide			148%	155%	81%

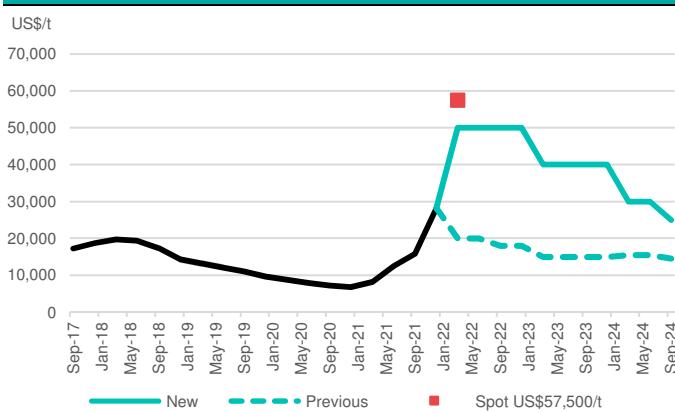
SOURCE: FASTMARKETS & BELL POTTER SECURITIES

Figure 1 - Spodumene concentrate (SC6) QUARTERLY



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 2 - Lithium carbonate (battery grade) QUARTERLY



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Valuation sensitivity to long term lithium price assumptions

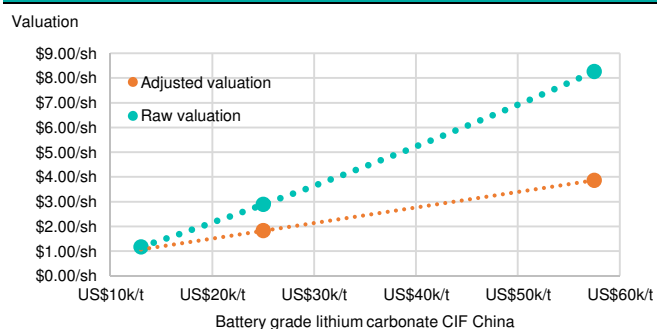
Our LKE valuation of \$1.82/sh is further risk adjusted from our raw, risked LKE valuation. This in part reflects potential a capital raising dilution.

Table 3 - LKE valuation sensitivity to lithium carbonate prices

	Scenario 1	Scenario 2	Scenario 3
	Consensus	Bell Potter	Spot
Lithium carbonate reference price CIF	US\$13k/t	US\$25k/t	US\$58k/t
Kachi @ 50ktpa LCE (75%, risked) A\$m	1,428	3,847	11,418
Other A\$m	119	119	119
EV (risked) A\$m	\$1,547m	\$3,966m	\$11,537m
Diluted net debt/(cash) A\$m	-105	-105	-105
Equity value (diluted) A\$m	\$1,652m	\$4,071m	\$11,642m
Diluted shares on issue m	1,409		
Equity value (diluted) \$/sh – RAW	\$1.17/sh	\$2.89/sh	\$8.26/sh
Equity value (diluted) \$/sh – ADJUSTED		\$1.82/sh	\$3.87/sh

SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 3 - LKE valuation sensitivity to LC prices*



SOURCE: BELL POTTER SECURITIES ESTIMATES * LC - LITHIUM CARBONATE

Near-term news flow & value catalysts

- Kachi maiden Mineral Resource estimate – November 2018. ✓
- Kachi PFS – April 2020. ✓
- Kachi high-quality product defined from pilot plant – October 2020 to March 2021. ✓
- Kachi refreshed PFS – March 2021. ✓
- Lilac Solutions 25% earn-in – September 2021. ✓
- **Ongoing – Funding arrangements** - Further expressions of interest and more developed agreements with Export Credit Agencies and other potential debt financiers with respect to Kachi capital cost financing.
- **Ongoing – Product offtake arrangements** – Details of conditional offtake agreements with end-users including indicative volumes and tenor.
- **April-May 2022** – Updated Kachi Mineral Resource (November 2018 estimate 4.4Mt LCE) and Initial Mineral Reserve.
- **Mid-2022:**
 1. Kachi DFS and expansion studies.
 2. Kachi Environmental and Social Impact Assessment (ESIA).
 3. LKE Board Kachi Project Final Investment Decision.

Valuation & methodology

Valuation summary: \$1.82/sh (risked)

Our LKE valuation of \$1.82/sh is further risk adjusted from our raw, risked LKE valuation. This in part reflects potential a capital raising dilution. Key components of our valuation include:

- **Kachi (LKE diluting to 75%) 50ktpa lithium carbonate:** Modelled with parameters consistent with LKE's March 2021 refreshed PFS, adjusted for the increased project scale of 50ktpa production (compared with PFS at 25.5ktpa).
- **Other projects (100% LKE):** LKE's other projects include exploration licences in Argentina prospective for lithium brine Resources (Couchari, Olaroz and Paso) and spodumene bearing pegmatites (Catamarca).
- **Corporate overhead allowance:** \$31m representing the present value of \$2.5m in annual corporate overheads not captured as part of our Kachi modelling.
- **Diluted capital base:** Assumed conversion of all in the money options.

Table 4 - Sum of parts valuation

	100%	100%	LKE equity	LKE equity	Risk	LKE equity
Projects LKE equity (unrisked)	US\$m	A\$m	%	A\$m	discount	(risked) A\$m
Kachi @ 50ktpa LCE	5,434	7,328	75%	5,496	30%	3,847
Other projects		150	100%	150		150
Total projects				5,646		3,997
Corporate overheads						-31
Enterprise value						3,966
Net debt						-71
Options						-34
Equity value (diluted)						4,071
Diluted shares m						1,409
Equity value (diluted) \$/sh – RAW						2.89
Equity value (diluted) \$/sh – ADJUSTED						1.82

SOURCE: BELL POTTER SECURITIES ESTIMATES

Kachi Lithium Project

Kachi (75% LKE): Risked discounted cash flow

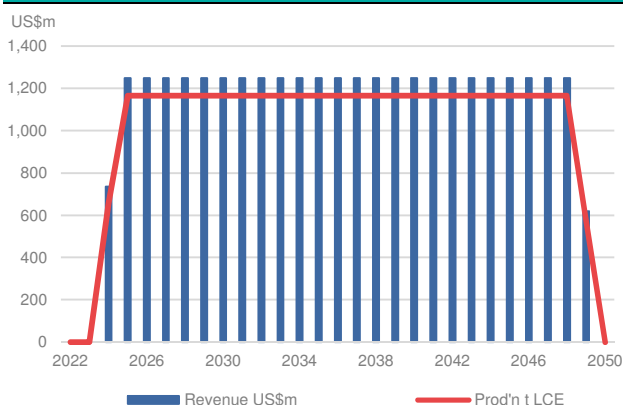
We have modelled Kachi project operational assumptions as follows:

- Capital cost of US\$1,032m (including 15% inflation for owners costs);
- Battery grade lithium carbonate production of 50ktpa;
- Project life of 25 years;
- Discount rate of 8%;
- C1 cash operating costs of US\$3,550/t lithium carbonate; and
- **Risk discount:** Risk discount of 25% to account for the project’s stage of development (pre DFS).

Kachi production & cash flow outlook

The following financial estimates assume LKE achieve battery grade pricing for its lithium carbonate production.

Figure 4 - Production & revenue (100%)



SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 5 - Earnings & free cash flow (100%)



SOURCE: BELL POTTER SECURITIES ESTIMATES

ASX-listed lithium sector

Resource, Reserve & production comparisons

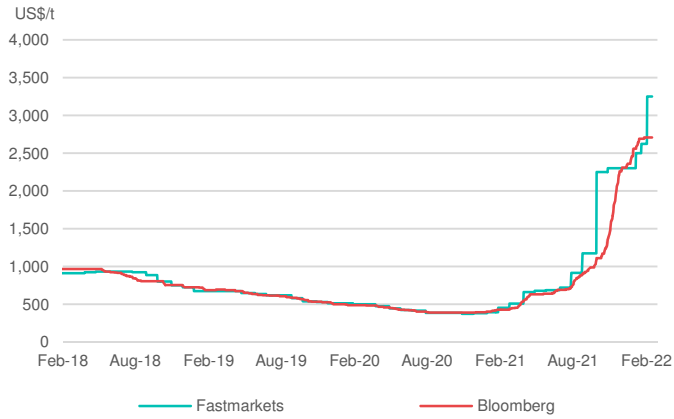
Table 5 - Resource, Reserve & production comparisons

Name (ASX code)	EV (\$m)	Total LCE Resource (Mt)	Total LCE Reserve (Mt)	EV /Resource (\$/t)	EV /Reserve (\$/t)	Expected annual LCE production* (kt)	EV to production (\$/t)
Pilbara Minerals (PLS)	9,240	8.2	4.7	1,132	1,966	63	147
Allkem (AKE)	5,723	18.5	2.7	309	2,124	113	50
Liontown Resources (LTR)	3,134	5.8	2.5	544	1,278	76	41
AVZ Minerals (AVZ)	2,703	8.3	2.7	324	1,001	53	51
Core Lithium (CXO)	1,224	0.5	0.2	2,557	5,053	29	42
Vulcan Energy Resources (VUL)	1,143	14.0	1.1	82	1,021	35	32
Ioneer (INR)	1,112	0.6	0.3	1,779	3,835	10	115
Lake Resources (LKE)	1,047	3.3	0.0	317	na	19	55
Sayona Mining (SYA)	823	1.8	0.4	447	2,292	24	34
Argosy Minerals (AGY)	426	0.2	0.0	1,929	na	11	39
Piedmont Lithium (PLL)	278	1.7	0.6	165	453	35	8
Lithium Power International (LPI)	208	1.5	0.4	140	547	10	20
Jindalee Resources (JRL)	150	10.1	0.0	15	na	na	na
Green Technology Metals (GT1)	69	0.1	0.0	463	na	na	na
Mean				729	1,957		53
Median				385	1,622		42

SOURCE: COMPANY DATA, IRESS, BELL POTTER SECURITIES ESTIMATES
 NOTE: * EXPECTED PRODUCTION FROM EXISTING OPERATIONS OR PROJECT BEING DEVELOPED

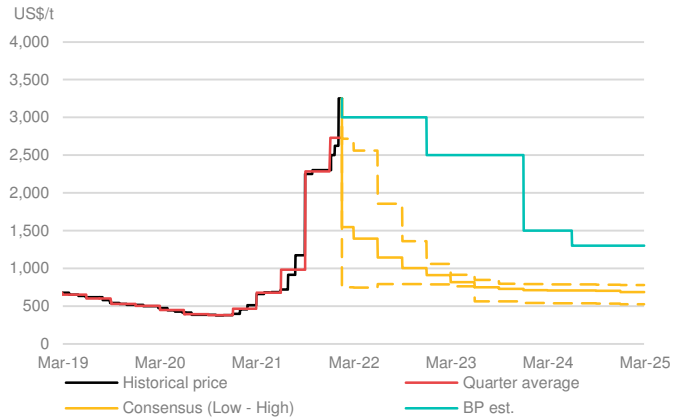
Lithium commodity price charts & outlook

Figure 6 - Spodumene price (min. 5-6%), CIF China



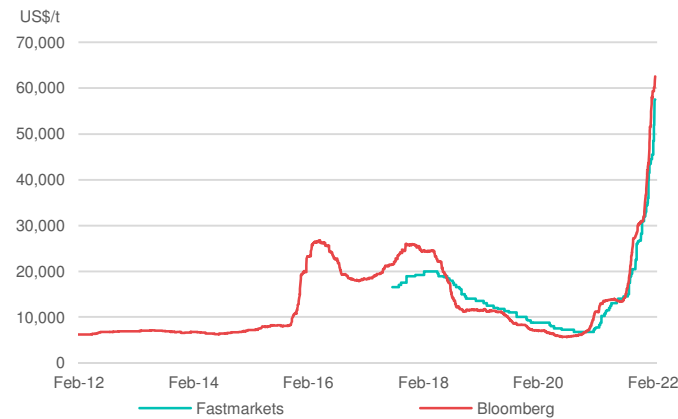
SOURCE: FASTMARKETS (MB-LI-0012) & BLOOMBERG (LICNSPDU INDEX)

Figure 7 - Historical & expected spodumene price, CIF China



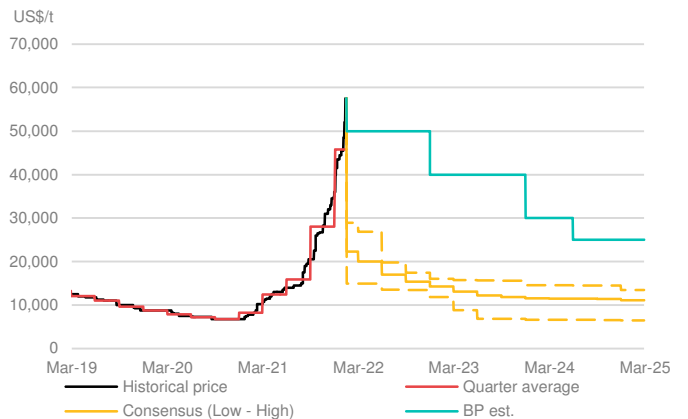
SOURCE: FASTMARKETS (MB-LI-0012) & CONSENSUS ECONOMICS

Figure 8 - Lithium carbonate price (battery grade), CIF NE Asia



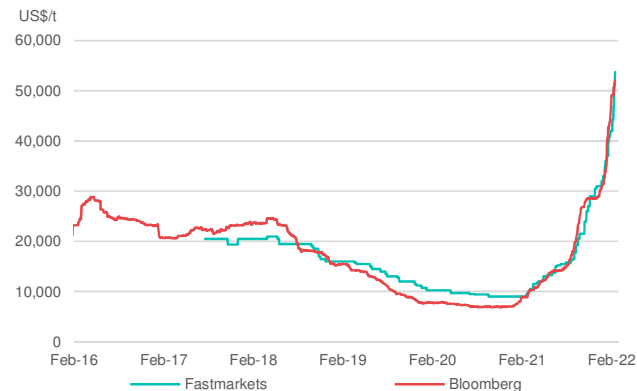
SOURCE: FASTMARKETS (MB-LI-0029) & BLOOMBERG (L4CNMUGO AMTL INDEX)

Figure 9 - Historical & expected Li carbonate price, CIF NE Asia



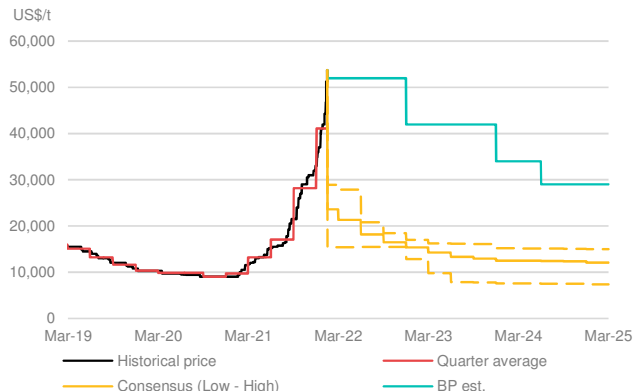
SOURCE: FASTMARKETS (MB-LI-0029) & CONSENSUS ECONOMICS

Figure 10 - Lithium hydroxide price (battery grade), CIF NE Asia



SOURCE: FASTMARKETS (MB-LI-0033) & BLOOMBERG (L6CNVRAT AMTL INDEX)

Figure 11 - Historical & expected Li hydroxide price, CIF NE Asia



SOURCE: FASTMARKETS (MB-LI-0033) & CONSENSUS ECONOMICS

Lake Resources Ltd (LKE)

Company description

LKE's Kachi (Argentina) lithium brine project has the potential to produce 50ktpa of high purity lithium carbonate ramping up from 2024 using direct lithium extraction technology. A DFS is due by mid-2022. Kachi's direct lithium extraction process is based on ion exchange developed by technology partner Lilac Solutions. Lilac is strategically aligned with LKE through a 25% project earn-in. An April 2020 Kachi PFS (and a subsequent March 2021 update) outlined a 25.5ktpa lithium carbonate project with a capital cost of US\$544m and unit costs of US\$4,178/t. LKE estimated annual project EBITDA of \$260m at the PFS assumed production rate of 25.5ktpa lithium carbonate and price of US\$15,500/t (CIF Asia).

Investment view: Buy (Speculative), Valuation \$1.82/sh

LKE's key project is the 50ktpa lithium carbonate Kachi Lithium Brine Project in Argentina. This project is expected to employ direct lithium extraction technology which has enormous ESG benefits compared with incumbent brine and hard rock lithium production methods. With this development project, uncommitted product offtake and an independent share register, LKE has strategic appeal.

LKE is a project development company with prospective operations and cash flows. Our Speculative risk rating recognises this higher level of risk and volatility of returns.

Valuation methodology

Our LKE valuation is supported by:

- Risked discounted cash flow valuations of the Kachi project ramping up to produce 50ktpa lithium carbonate;
- Valuations for LKE's earlier stage lithium projects in Argentina;
- Allowances for corporate overheads; and
- Dilution from options on issue.

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.** Commodity producers are reliant upon access to transport and energy 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, project development and processing inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy, reagents and labour markets.
- **Resource growth and project life extensions.** Future earnings forecasts and valuations may rely upon Resource and Reserve growth to extend mine lives.
- **Sovereign risks.** Mining companies' assets are subject to the sovereign risks associated with the countries within which they operate.
- **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 development processes.
- **Operating and development risks.** Resources 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.** Resources 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:** Resources 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 6 - Financial summary

Date		17/02/22					Bell Potter Securities						
Price	AS/sh	0.92					Stuart Howe (showe@bellpotter.com.au, +61 3 9235 1856)						
Valuation	AS/sh	1.82											
PROFIT AND LOSS													
Year ending 30 June	Unit	2021a	2022e	2023e	2024e	2025e	FINANCIAL RATIOS						
Revenue	\$m	-	-	-	191	1,184	Year ending 30 June						
Expenses	\$m	(3)	(4)	(4)	(57)	(230)	VALUATION						
EBITDA	\$m	(3)	(4)	(4)	135	954	Ac/sh	(0.4)	(0.3)	(0.1)	3.3	31.3	
Depreciation & amortisation	\$m	(0)	-	-	(26)	(98)	%	na	na	na	na	835%	
EBIT	\$m	(3)	(4)	(4)	109	856	x	(259.9)	(343.8)	(674.7)	27.4	2.9	
Net interest expense	\$m	-	1	2	(19)	(33)	Ac/sh	-	-	-	-	-	
Profit before tax	\$m	(3)	(3)	(2)	90	824	%	0%	0%	0%	0%	0%	
Tax expense	\$m	-	-	-	(34)	(288)	Ac/sh	(0.9)	(1.1)	(39.0)	(23.8)	36.5	
NPAT (reported)	\$m	(3)	(3)	(2)	56	535	%	-1%	-1%	-43%	-26%	40%	
NPAT (adjusted)	\$m	(3)	(3)	(2)	56	535	x	-403.9x	-261.8x	-261.8x	7.8x	1.1x	
CASH FLOW STATEMENT													
Year ending 30 June	Unit	2021a	2022e	2023e	2024e	2025e	LIQUIDITY & LEVERAGE						
OPERATING CASH FLOW							Net debt / (cash)						
Receipts from customers	\$m	-	-	-	191	1,184	\$m	(25.7)	(54.1)	230.2	632.3	(11.3)	
Payments to suppliers and employees	\$m	(2)	(4)	(4)	(57)	(230)	%	-55%	-63%	61%	145%	-1%	
Tax paid	\$m	-	-	-	(34)	(288)	%	-121%	-173%	38%	59%	-1%	
Net interest	\$m	-	1	2	(19)	(33)	%	-	-	-	-	-	
Other	\$m	-	-	-	-	-	x	9.9x	13.5x	-57.5x	4.7x	0.0x	
Operating cash flow	\$m	(2)	(3)	(2)	82	634	x	0.0x	4.4x	2.0x	7.2x	29.2x	
INVESTING CASH FLOW							EBITDA / net int expense						
Capex	\$m	(5)	(10)	(578)	(484)	(9)	%	0%	0%	0%	70%	81%	
Other	\$m	-	-	-	-	-	%	0%	0%	0%	57%	72%	
Investing cash flow	\$m	(5)	(10)	(578)	(484)	(9)	%	-9%	-5%	0%	6%	37%	
FINANCING CASH FLOW							Return on equity						
Debt proceeds/(repayments)	\$m	0	-	483	241	-	%	-9%	-5%	-1%	14%	75%	
Dividends paid	\$m	-	-	-	-	-	ASSUMPTIONS - Prices (nominal)						
Proceeds share issues (net, incl. options)	\$m	33	42	296	-	19	Year ending 30 June						
Other	\$m	-	-	-	-	-	Unit	2021a	2022e	2023e	2024e	2025e	
Financing cash flow	\$m	33	42	779	241	19	Spodumene concentrate (6% basis)	US\$/t	478	2,317	2,750	2,000	1,300
Change in cash	\$m	26	28	198	(161)	644	Lithium Carbonate (battery grade)	US\$/t	8,641	35,996	45,000	35,000	25,000
Free cash flow	\$m	(7)	(13)	(580)	(402)	624	Lithium Hydroxide (battery grade)	US\$/t	10,510	37,303	47,000	38,000	29,000
BALANCE SHEET							LCE sales						
Year ending 30 June	Unit	2021a	2022e	2023e	2024e	2025e	Year ending 30 June						
ASSETS							Unit	2021a	2022e	2023e	2024e	2025e	
Cash	\$m	26	54	252	92	735	Kachi (100%)	kt LCE	-	-	-	6	47
Receivables	\$m	0	0	0	0	0	Kachi (LKE equity share)	kt LCE	-	-	-	5	35
Inventories	\$m	-	-	-	-	-	VALUATION						
Capital assets	\$m	22	32	610	1,069	980	Shares on issue	m	1,222				
Other assets	\$m	0	0	0	0	0	Options	m	187				
Total assets	\$m	48	86	863	1,161	1,715	Diluted shares on issue	m	1,409				
LIABILITIES							Discount rate: 8.0%						
Creditors	\$m	1	1	1	1	1	100%	100%	LKE	Unrisked	Risk	Riskd	
Borrowings	\$m	-	-	483	724	724	Projects LKE equity (unrisked)	US\$m	A\$m	equity %	A\$m	discount	A\$m
Provisions	\$m	0	0	0	0	0	Kachi @ 50ktpa LCE	5,434	7,328	75%	5,496		3,847
Other liabilities	\$m	-	-	-	-	-	Other projects	150	100%	150		150	
Total liabilities	\$m	1	1	484	725	725	Total projects			5,646		3,997	
NET ASSETS	\$m						Corporate overheads					(31)	
Share capital	\$m	66	107	404	404	423	Enterprise value					3,966	
Reserves	\$m	3	0	(2)	55	590	Net debt					(71)	
Accumulated losses	\$m	(22)	(22)	(22)	(22)	(22)	Options					(34)	
Non-controlling interest	\$m	-	-	-	-	-	Equity value (diluted)					4,071	
SHAREHOLDER EQUITY	\$m	47	85	380	436	991	Equity value (diluted) \$/sh - RAW					2.89	
Weighted average shares	m	822	1,158	1,488	1,689	1,713	Equity value (diluted) \$/sh - ADJUSTED					1.82	

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.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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