



Update Report Lake Resources (ASX:LKE) Lithium price adjustment

LKE Price: \$0.90 | LKE Valuation: \$1.77 | Implied Return: 97% | 19/11/2021

Company

Lake Resources (LKE) owns 2,200km² of leases 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 nickel rich NCM662 batteries 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 products from tier 1 producers.

Business Update

Since our September update the spot price of lithium has rallied approximately 50%, as automakers and battery manufacturers scramble to secure supply as the growth of EV's continues unabated. The price is currently sitting at 197,500 yuan per tonne, which equals \$US31,000/t. There are indications the lithium sector will move into deficit from next year and potentially chronic deficit from 2023. This bodes well for LKE which could look to start production from its Lake Kachi lithium tenement in 2024.

Upcoming expected milestones from LKE:

- Definitive Feasibility Study (DFS) and Social Impact Assessment (ESIA) covering the Kachi project are well advanced and should be completed in Q2, 2022.
- Expansion study to increase production to 51,000tpa is expected at the same time as the DFS.
- Final Investment Decision on construction finance expected mid-2022.
- An offtake deal is possible post the DFS and Expansion Study.
- Commissioning and production potentially in 2024.
- A demonstration plant is scheduled to be onsite by Q1 2022 and will produce sample sizes of 50kg to 500kg for prospective offtake partners.

LKE is currently undertaking a 4 well 1,600m drilling program to upgrade and expand the current 4.4mt LCE indicated and inferred resources and will set the basis for the proposed production expansion. We expect results at the beginning of the new year. LKE currently has \$63m cash on hand and has potentially another \$64m coming in through the exercising of 86.1m options at 75 cents which expire 15 June 2022.

Valuation

We have increased our valuation on LKE from \$1.05 to \$1.77. In our previous valuation we used a lithium price of US\$15,000/t, however we feel it would be prudent to increase our lithium price input considering recent activity in the spot price. When it comes down to it there is a very real possibility LKE will sign offtake contracts at more than US\$20,000/t, hence our upgraded lithium price is still conservative

Company Data

Recommendation: BUY
Price (Date 19-11): \$0.90
ASX Code: LKE
Shares on Issue: 1.214bn
Market capitalization: \$1.09bn
Enterprise Value: \$1.027bn
12-month price range: \$0.06-\$1.19

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

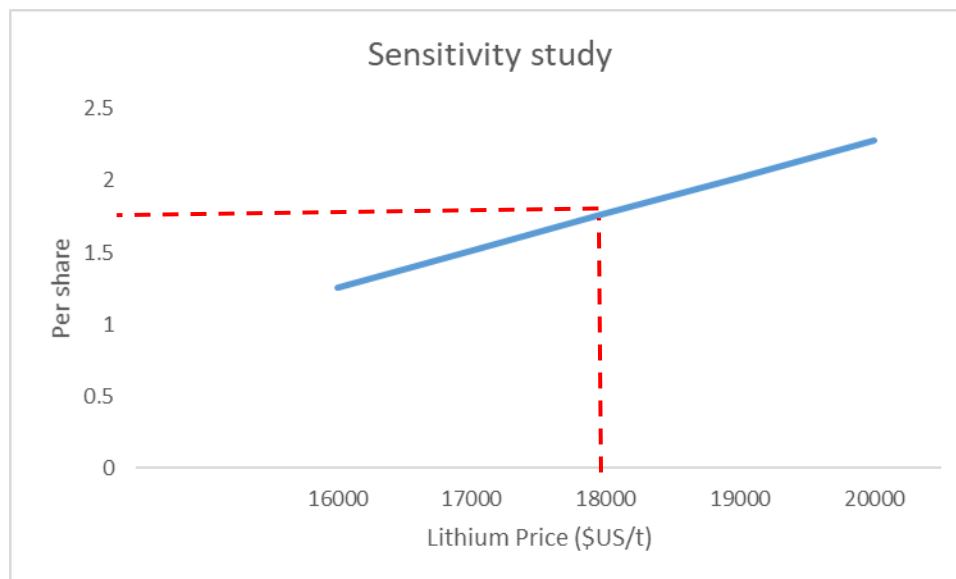
Lithium mined tonnes p.a.	50,808
Average grade (mg/L)	250
Capex (\$USm)	870.4
Lithium Price (\$US/t)	18,000
Recovery rate	83%
USD/AUD	0.75
Discount rate	8%
Value per share	\$1.77



Mining scenario

Financial Year	Lake Kachi Project														
	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)						915	915	915	915	915	915	915	915	915	915
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						684	684	684	684	684	684	684	684	684	684
D&A						3	3	3	3	3	3	3	3	3	3
EBIT						681	681	681	681	681	681	681	681	681	681
Royalty						27.4	27.4	27.4	27.4	27.4	27.4	27.4	27.4	27.4	27.4
Tax						163.5	163.5	163.5	163.5	163.5	163.5	163.5	163.5	163.5	163.5
NPAT (US\$M)						490.4	490.4	490.4	490.4	490.4	490.4	490.4	490.4	490.4	490.4
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						190.9	190.9	190.9	190.9	190.9	190.9	190.9	190.9	190.9	190.9
Cashflow						422.1	422.1	422.1	422.1	422.1	422.1	422.1	422.1	422.1	422.1
Cashflow @ 75%				-870.4		316.6	316.6	316.6	316.6	316.6	316.6	316.6	316.6	316.6	316.6
NPV (US\$M)						\$2,521									
NPV (AUD\$M)						\$3,361.24									
IRR						36%									
Shares on issue (diluted)						1369.3									
A\$/share (pre-capex)						\$2.45									
Cash raised toward capex (\$AUm)						74.3									
Shares on issue after dilution						1443.595									
NPV minus year 0 debt						2549									
Value/Share at start mining						\$1.77									

The valuation is most sensitive to lithium spot price movements. Each US\$1,000/t movement gives a +- 20% variation to our valuation. In our sensitivity study, a price range of US\$16,000/t to US\$12,000/t sees the valuation range from \$1.25 to \$2.28.



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