

# Lepidico

## Developing to the (L-)Max

On 28 May, Lepidico (LPD) announced the results of its Association of the Advancement of Cost Engineering (AACE) class three (definitive) feasibility study (DFS) on its integrated Karibib mining/chemical plant project to produce 4,900tpa of battery grade lithium hydroxide (monohydrate) plus high value, Group 1 metal by-products over 14 years. At a lithium hydroxide price of US\$13,669/t (cf US\$10,350–11,200/t currently), the DFS calculated a project NPV<sub>8</sub> of US\$221m, or A\$340m (A\$0.066/share) and an IRR of 31% after initial capex of US\$139m (including a 13.6% contingency). C1 cash costs were estimated to a  $\pm 15\%$  level of accuracy at US\$1,656/t lithium carbonate equivalent (LCE) and all-in sustaining costs at US\$3,221/t LCE – putting it near the bottom of the known LiOH cost curve. A comprehensive review of the DFS is now planned, which will be reported on in due course.

Year end	Total revenues (A\$m)	PBT (A\$m)	Cash from operations (A\$m)	Net cash/(debt)* (A\$m)	Capex (A\$m)
6/18	0.2	(7.2)	(3.0)	4.9	(3.1)
6/19	0.0	(5.1)	(3.5)	10.4	(6.3)
6/20e	0.0	(8.4)	(15.1)	56.5	(7.4)
6/21e	0.0	(3.0)	(2.7)	(66.1)	(119.9)

Note: PBT is normalised, excluding amortisation of acquired intangibles and exceptional items. \*Includes Desert Lion Energy convertible.

## Immediate 2.5x upside

The DFS's calculated NPV<sub>8</sub> of 6.6c/share may be directly compared to the non-diluting price of future equity funding calculated in our last report ([Valuation update pending feasibility study](#), 6 April 2020) of 9.99c/share, albeit our estimate was based on estimated numbers for a project that had been materially re-scoped (eg the acquisition of Desert Lion Energy in July 2019 and the integration of Karibib into Lepidico's L-Max project development plans). Nevertheless, in our report, Gold stars and black holes, published in January 2019, we calculated a mean EV for companies with projects at the bankable feasibility study/DFS stage of development of 30.9% of project NPV (ranging up to 133.5%). This alone would imply a valuation for Lepidico of 2.0c/share (ranging up to 8.8c/share) plus cash (we estimate A\$4.9m, or 0.09c/share as at end-May) cf LPD's current share price of 0.8c/share.

## Valuation: longer-term 5.6x upside

The Karibib project is already fully permitted under a granted mining licence and its development has been materially de-risked by Lepidico's earlier running of a pilot plant campaign to test L-Max and LOH-Max in continuous production. Within this context, LPD is currently investigating funding and offtake options for its project prior to making a final investment decision in May 2021. Based on the advice of specialist debt advisors, it is aiming for a debt:equity ratio in the range 60–70:40–30. Assuming 40% equity funding would require the company to raise c A\$86m, which could be achieved by issuing 4,277m shares at 2.0c/share, such that the resulting company valuation of A\$426m (A\$86m plus A\$340m NPV<sub>8</sub> project valuation) would equate to 4.5c per (fully diluted) share (or 5.2c if equity is raised as 2.9cps as previously). Note that this valuation does not attribute any value to Lepidico from a Phase 2 Plant or any other development options (such as gold).

## Feasibility study results

### Metals & mining

29 May 2020

**Price** **A\$0.007**

**Market cap** **A\$36m**

A\$1.5040/US\$

Net debt (A\$m) at end December 2019\* 1.8

\*Includes Desert Lion Energy convertible

Shares in issue 5,185.7m

Free float 68%

Code LPD

Primary exchange ASX

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs 14.3 (19.0) (71.1)

Rel (local) 3.2 (11.5) (68.0)

52-week high/low A\$0.03 A\$0.01

### Business description

Via its Karibib project in Namibia and unique IP, Lepidico is a vertically integrated lithium development business that has produced both lithium carbonate and lithium hydroxide from non-traditional hard rock lithium-bearing minerals using its registered L-Max® and LOH-Max™ processes.

### Next events

Final investment decision May 2021

Karibib construction start September 2021

Chemical plant construction start December 2021

Chemical plant construction completion December 2022

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**Exhibit 1: Financial summary**

Accounts: IFRS, year end June, A\$000s		2015	2016	2017	2018	2019	2020e	2021e
Total revenues		9	116	127	171	2	0	0
Cost of sales		0	0	0	0	0	0	0
Gross profit		9	116	127	171	2	0	0
SG&A (expenses)		(455)	(617)	(912)	(5,284)	(4,006)	(7,001)	(3,146)
Other income/(expense)		0	0	0	0	0	0	0
Exceptionals and adjustments	Exceptionals	(16)	(415)	(878)	(2,171)	(1,150)	(1,331)	0
Depreciation and amortisation		(5)	(6)	(6)	(6)	(8)	(163)	(163)
Reported EBIT		(467)	(923)	(1,670)	(7,290)	(5,162)	(8,496)	(3,309)
Finance income/(expense)		(18)	(5)	128	70	57	52	283
Other income/(expense)		(559)	(448)	(3,815)	0	0	0	0
Exceptionals and adjustments	Exceptionals	0	(888)	0	0	0	0	0
Reported PBT		(1,044)	(2,263)	(5,357)	(7,220)	(5,105)	(8,444)	(3,027)
Income tax expense (includes exceptionals)		0	0	0	0	0	0	0
Reported net income		(1,044)	(2,263)	(5,357)	(7,220)	(5,105)	(8,444)	(3,027)
Basic average number of shares (m)		178	465	1,802	2,624	3,272	5,630	6,888
Basic EPS (c)		(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
<b>Balance sheet</b>								
Property, plant and equipment		9	4	8	27	18,487	24,907	144,597
Goodwill		0	0	0	0	0	0	0
Intangible assets		0	16,204	16,698	19,027	22,925	22,925	22,925
Other non-current assets		1,485	715	1,620	730	9,001	8,181	8,181
Total non-current assets		1,494	16,922	18,326	19,783	50,414	56,013	175,704
Cash and equivalents		53	650	3,307	4,860	13,660	59,802	59,802
Inventories		0	0	0	0	0	0	0
Trade and other receivables		4	3,886	706	712	1,869	0	0
Other current assets		0	0	0	0	0	0	0
Total current assets		57	4,537	4,013	5,572	15,529	59,802	59,802
Non-current loans and borrowings		0	0	0	0	3,276	3,276	125,876
Other non-current liabilities		0	0	0	0	0	0	0
Total non-current liabilities		0	0	0	0	3,276	3,276	125,876
Trade and other payables		105	614	1,663	804	10,940	142	259
Current loans and borrowings		115	0	0	0	0	0	0
Other current liabilities		40	33	46	51	86	86	86
Total current liabilities		260	647	1,709	856	11,026	227	344
Equity attributable to company		1,292	20,812	20,630	24,500	53,252	113,922	110,895
Non-controlling interest		0	0	0	0	(1,610)	(1,610)	(1,610)
<b>Cash-flow statement</b>								
Profit for the year		(1,044)	(2,263)	(5,357)	(7,220)	(5,105)	(8,444)	(3,027)
Taxation expenses		0	0	0	0	0	0	0
Depreciation and amortisation		5	6	6	6	8	163	163
Share based payments		450	40	1,736	2,138	520	511	0
Other adjustments		(451)	1,036	(162)	2,066	664	1,641	0
Movements in working capital		(10)	132	133	(28)	410	(8,930)	117
Interest paid / received		0	0	0	0	0	0	0
Income taxes paid		0	0	0	0	0	0	0
Cash from operations (CFO)		(1,050)	(1,049)	(3,644)	(3,038)	(3,504)	(15,059)	(2,747)
Capex		(9)	(63)	(861)	(3,057)	(6,251)	(7,403)	(119,854)
Acquisitions & disposals net		0	32	122	110	0	0	0
Other investing activities		(563)	(80)	0	0	0	0	0
Cash used in investing activities (CFIA)		(572)	(111)	(739)	(2,947)	(6,251)	(7,403)	(119,854)
Net proceeds from issue of shares		1,505	1,872	7,040	7,555	18,462	68,603	0
Movements in debt		100	(115)	0	0	0	0	122,600
Other financing activities		0	0	0	0	0	0	0
Cash from financing activities (CFF)		1,605	1,757	7,040	7,555	18,462	68,603	122,600
Increase/(decrease) in cash and equivalents		(18)	597	2,657	1,570	8,707	46,142	0
Currency translation differences and other		0	0	0	(17)	93	0	0
Cash and equivalents at end of period		53	650	3,307	4,860	13,660	59,802	59,802
Net (debt)/cash		(61)	650	3,307	4,860	10,385	56,526	(66,074)
Movement in net (debt)/cash over period		(61)	711	2,657	1,553	5,525	46,142	(122,600)

Source: Company reports and accounts, Edison Investment Research. Note: FY19 balance sheet is Lepidico's stated balance sheet consolidated with Edison's estimate of Desert Lion's balance sheet as at 30 June 2019, converted into Australian dollars.

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