

Lepidico Ltd (LPD)

Rating: Buy | Risk: High | Price Target: \$0.06

December quarter – offtakes signed, FEED nearing completion

Key Information

Current Price (\$ps)	0.04
12m Target Price (\$ps)	0.06
52 Week Range (\$ps)	0.01 - 0.05
Target Price Upside (%)	50.9%
TSR (%)	50.9%
Reporting Currency	AUD
Market Cap (\$m)	234
Sector	Materials
Avg Daily Volume (m)	47.6
ASX 200 Weight (%)	0%

Fundamentals

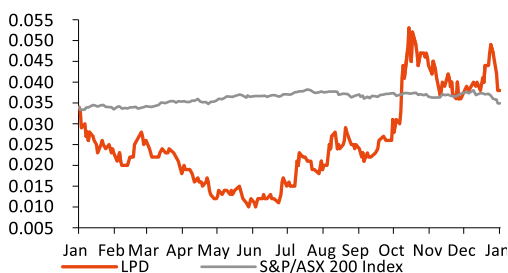
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales (\$m)	0	0	0	154
NPAT (\$m)	0	(4)	(6)	66
EPS (cps)	0.0	(0.1)	(0.1)	0.8
EPS Growth (%)	102.2%	nm	(27.0%)	nm
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	nm	(62.2)	(49.0)	4.7
EV/EBITDA (x)	nm	(56.1)	(56.1)	2.1
Div Yield (%)	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	11.8%	(9.2%)	42.2%	9.1%
Absolute (%)	5.6%	(13.6%)	35.7%	11.8%
Benchmark (%)	(6.2%)	(4.4%)	(6.5%)	2.7%



Price performance indexed to 100

Source: FactSet

Major Shareholders

Strategic Metallurgy	6.0%
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Event

Lepidico has released its December quarter operations review. Lepidico is making strong progress with its Phase 1 Lithium Project, which will become the world's lowest cost source of lithium (after by-product credits).

Highlights

- Lepidico has developed proprietary technology (L-Max® & LOH-Max™) for extracting lithium from mica minerals. This opens-up a new source of lithium to supply rapidly growing demand from lithium ion batteries. It also comes with valuable by-products in the form of caesium, rubidium and sulphate of potash (SOP) which will make Lepidico one of the world's lowest cost sources of lithium after by-product credits. The company is starting with a relatively small scale mine in Namibia and chemical plant in Abu Dhabi, however if successful, Lepidico will be pioneering a new, low-cost source of lithium.
- Lepidico released a Definitive Feasibility Study (DFS) in 2020 showing attractive economics for a Phase 1 5,000tpa lithium hydroxide project, with pre-production capex of US\$139m, an NPV₈ of US\$221m and an IRR of 31%. The project is fully permitted and Lepidico is aiming for a Final Investment Decision in mid-2022, with production in 2023.
- Lepidico has made strong progress during the December quarter;
 - Front End Engineering and Design (FEED) for the Karibib concentrator was completed in January and is now under review by Lepidico. The draft control estimate is likely to show higher capex and opex than in the PFS, but this will be more than offset by higher lithium prices.
 - Geotechnical work on the Phase 1 plant site in the Khalifa Industrial Zone Abu Dhabi (KIZAD) has commenced. The Affection Plan has been received allowing works to commence with the local engineer on infrastructure and tie-ins. All major environmental permits have been received in both Namibia and Abu Dhabi.
 - The Pilot plant was upgraded to a demonstration plant operating at 30kg/hr and has produced product for the offtake partners.
 - Lepidico has signed binding offtakes for 100% of its lithium and caesium sulphate product with Traxys, a leading commodity trading business. The agreement is for 7 years or 35,000t of lithium hydroxide and can be extended by mutual agreement. Traxys will manage the logistics of finished products, provide credit terms to end customers and a trade finance facility to Lepidico.
 - An independent technical report was delivered to U.S. International Development Finance Corp (DFC) with legal due diligence expected to commence in Feb-22.
- In 2021 Lithium hydroxide prices surged above US\$30,000/t. Benchmark Mineral Intelligence (BMI) has substantially increased its lithium price forecasts and does not expect lithium markets to move back into balance within the next few years. We recently increased our near and medium term (2022-2027) forecast lithium hydroxide price to ~US\$20,000/t and our long-term price from US\$12,500/t to US\$15,000/t.
- The next key milestones for the company will be completion of the FEED control estimates for the chemical plant (now expected in April/May) and integration of the new data into a revised DFS (along with higher price assumptions) to facilitate debt financing and a Final Investment Decision in mid-2022.

Recommendation

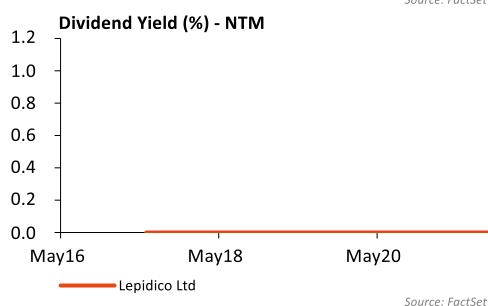
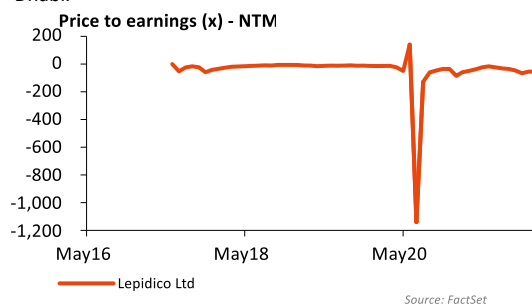
We retain our BUY recommendation and price target of 5.7cps. Lepidico is pioneering an alternative source of lithium to the traditional brine and spodumene producers. If successful, our 5.7c target, which is based only on the Phase 1 plant is likely to prove very conservative. If we used spot lithium prices in our Lepidico model, our valuation would increase to 13.5cps, without including technology licencing agreements or a phase 2 plant.

Lepidico Ltd
Materials
Materials
FactSet: LPD-AU / Bloomberg: LPD AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.04
Target Price (\$ps)	0.06
52 Week Range (\$ps)	0.01 - 0.05
Shares on Issue (m)	6,152
Market Cap (\$m)	234
Enterprise Value (\$m)	234
TSR (%)	50.9%

Company Description

Lepidico is a mining and chemical processing company focussed on producing lithium hydroxide from mica minerals. The company is developing a mining operation at Karibib in Namibia which will produce a lithium, caesium, rubidium and potassium concentrate from pegmatites in which the dominant lithium minerals are lepidolite, lithium-mica and petalite. Lepidico intends to process this concentrate using its proprietary L-Max and LOH-Max technology at a chemical plant to be constructed in Abu Dhabi.



Financial Year End: 30 June

Investment Summary (AUD)	FY20A	FY21A	FY22E	FY23E	FY24E
EPS (Reported) (cps)	(0.2)	0.0	(0.1)	(0.1)	0.8
EPS (Underlying) (cps)	(0.2)	0.0	(0.1)	(0.1)	0.8
EPS (Underlying) Growth (%)	17.0%	102.2%	nm	(27.0%)	nm
PE (Underlying) (x)	(3.1)	nm	(62.2)	(49.0)	4.7
EV / EBIT (x)	(21.6)	(751.7)	(56.1)	(56.1)	2.4
EV / EBITDA (x)	(22.2)	nm	(56.1)	(56.1)	2.1
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Profit and Loss (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Sales	0	0	0	0	154
Other Operating Income	0	4	0	0	0
EBITDA	(11)	0	(4)	(4)	112
EBITDA Margin (%)	nm	nm	nm	nm	72.5%
Depreciation & Amortisation	(0)	(0)	0	0	(15)
EBIT	(10.8)	(0.3)	(4.2)	(4.2)	96.3
EBIT Margin (%)	nm	nm	nm	nm	62.5%
Net Interest	0	0	0	(3)	(8)
Pretax Profit	(11)	(0)	(4)	(8)	88
Tax	1	1	0	2	(22)
Tax Rate (%)	(6.4%)	(190.7%)	0.0%	(25.0%)	(25.0%)
NPAT Underlying	(10)	0	(4)	(6)	66
Significant Items	0	0	0	0	0
NPAT Reported	(10)	0	(4)	(6)	66
Cashflow (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	(11)	(0)	(4)	(4)	96
Tax Paid	0	0	0	0	2
Net Interest	0	0	0	1	1
Change in Working Capital	0	0	0	0	(26)
Depreciation & Amortisation	0	0	0	0	15
Other	6	1	0	(4)	(8)
Operating Cashflow	(5)	1	(4)	(8)	80
Capex	0	(0)	0	(185)	(5)
Acquisitions and Investments	(5)	(1)	(2)	(2)	0
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	(2)	1	0	0	0
Investing Cashflow	(7)	(1)	(2)	(187)	(5)
Equity Raised / Bought Back	4	15	15	70	0
Dividends Paid	0	0	0	0	0
Change in Debt	0	(5)	0	120	0
Other	0	0	0	0	0
Financing Cashflow	4	10	15	190	0
Net Change in Cash	(8)	10	9	(5)	74
Balance Sheet (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	5	15	24	19	93
Accounts Receivable	2	0	0	0	13
Inventory	0	0	0	0	19
Other Current Assets	0	0	0	0	0
PPE	2	2	2	187	177
Total Assets	75	85	96	279	374
Accounts Payable	1	1	1	1	6
Short Term Debt	5	0	0	0	0
Long Term Debt	0	0	0	120	120
Total Liabilities	16	10	10	128	158
Total Shareholder Equity	59	75	86	150	217
Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
ROE (%)	(22.2%)	0.5%	(5.2%)	(5.1%)	37.5%
Gearing (%)	0.8%	(27.5%)	(42.9%)	41.3%	11.3%
Net Debt / EBITDA (x)	(0.0)	460.6	5.7	(24.3)	0.2

Key risks

- The lithium price is volatile and is relatively difficult to forecast and the actual price may differ substantially from our forecasts.
- The caesium and rubidium markets are opaque and price discovery is difficult. Actual prices may differ substantially from our forecasts.
- The Karibib mine and concentrator and Abu Dhabi Plant are not yet constructed and there is a risk that Lepidico is unable to bring the operation in to production. The project may cost more than expected to build and may not operate as expected.
- Lepidico is intending to operate in non-OECD locations (Namibia and Abu Dhabi) which can carry more sovereign risk.
- Smaller companies carry more significant 'key personnel' risk than larger organisations. If senior management depart the company then it could delay projects or exacerbate operational risks.

Core drivers and catalyst

- Strong growth in lithium demand (~29% CAGR to 2030) due to the growth in lithium-ion batteries for electric vehicles, mobile devices and grid storage.
- Lepidico's proprietary technology opens-up a new processing route for lithium from mica minerals.
- The L-Max[®] process is expected to have lower energy requirements than existing lithium recovery processes.
- LOH-MaxTM produces lithium hydroxide without the production of sodium sulphate. The process provides significant capex and opex advantages over conventional processes and so Lepidico sees opportunity for licensing this process technology to the growing number of lithium chemical producers. Cornish Lithium paid C\$4m to Lepidico in Dec-2020 to licence its technology for the Trelavour hard rock lithium project.
- The processing of lithium micas also allows the production of valuable potassium, caesium and rubidium by-products, which will significantly offset the operating costs and make Lepidico one of the world's lowest cost producers of lithium hydroxide or lithium carbonate.
- There are very few sources of caesium and rubidium, which have been identified as critical minerals by the US government. Existing sources of caesium are depleting and Lepidico's planned production will be of strategic value to offtake partners, particularly in US.
- Lepidico has released a Definitive Feasibility Study (DFS) showing attractive economics for a Phase 1 5,000tpa lithium hydroxide project, with pre-production capex of US\$139m, an NPV8 of US\$221m and an IRR of 31%.
- Lepidico has already begun scoping work for a Phase 2 Plant which is planned to have capacity of 20,000tpa lithium carbonate equivalent (LCE).

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

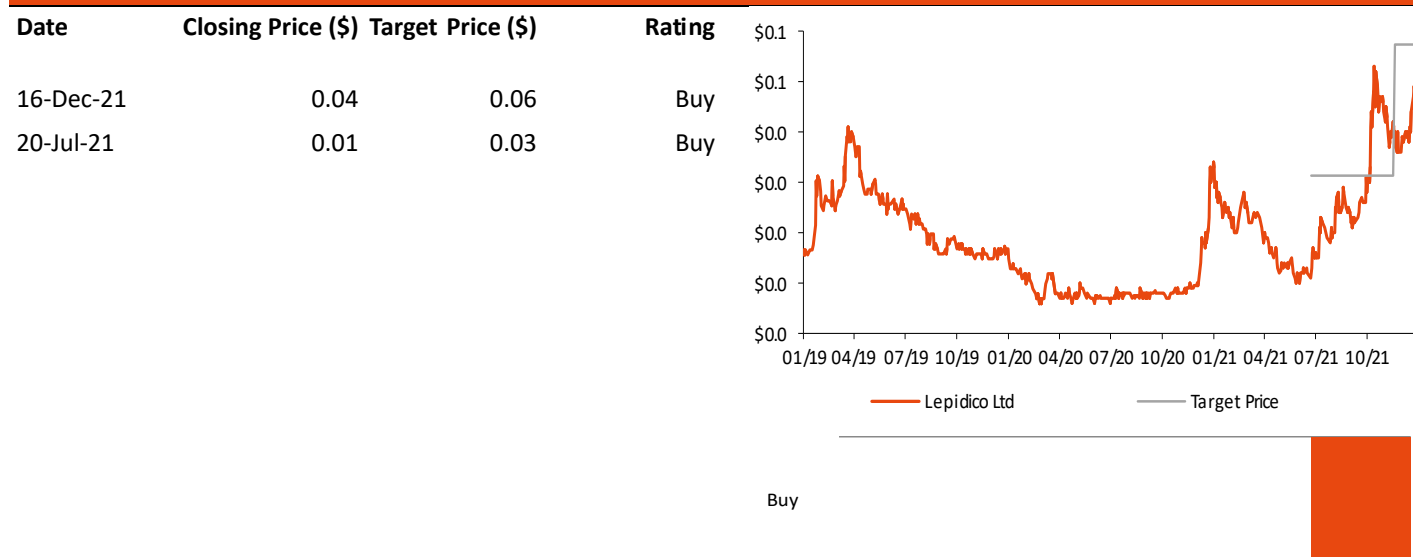
High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

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Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	87	82%
Hold	18	17%
Sell	1	1%

History of Investment Rating and Target Price - Lepidico Ltd



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