



STOCKS
DOWN UNDER

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Resources Stocks Down Under

🗨️ *'I'm Leo Getz, and whatever you want, Leo gets.
Get it? 🗨️*

- Leo Getz, Character in Lethal Weapon 2

LEO LITHIUM

It's not just any lithium play

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Stocks Down Under rating: ★★★★★

ASX: LLL
Market cap: A\$736.5M

52-week range: A\$0.36 / A\$0.81
Share price: A\$0.585

In this market, any lithium company is doing well. Investors have every right to be excited about the sector given the demand for battery metals that will continue to expand in the years ahead. But not every lithium company is in the position of Leo Lithium (ASX:LLL). Leo Lithium is going to be the first hard rock lithium project in West Africa, is in a 50-50 joint venture with the world's largest lithium chemical producer and is substantially funded to production. And the company has already made the Final Investment Decision.

Share price chart



Source: Tradingview

Spun off by Firefinch

Leo Lithium's project is the Goulamina project in Mali. It was formerly owned by Firefinch (ASX: FFX), but was spun off earlier this year, raising \$100m at 70c a share in the process. The project consists of a 100 square km land holding in the Bougouni Region of southern Mali, 150km by road from the national capital Bamako. Just as important, it is 50km from the major population centre of Bougouni and just 20km from a major highway that connects Bamako and the neighbouring Ivory Coast. Although Mali is a landlocked nation, the Ivory Coast is not and Leo Lithium will be able to use ports in the latter nation.

The DFS, completed in late 2020, found that the project is one of the world's best hard rock lithium assets in scale and production. It has a Mineral Resource of 108Mt at 1.45% lithium and an Ore Reserve at 52Mt at 1.51% lithium. The DFS found an NPV of US\$2.94bn, a post-tax internal rate of return of 83% and a 23-year mine life.

The project will be ramped up in two stages; Stage 1 will produce 506,000 tonnes of spodumene concentrates annually while Stage 2 will increase this to 831,000. Stage 2 is expected to come online 18 months after Stage 1, while Stage 1 is anticipated to start in 1HY24.

The hard work has been done

Often when resources companies spin off projects, it is because they don't have time or resources to commit to the project - companies will say so publicly. But privately, they typically have doubts about the project and just want to get some cash and run. But in the six years that Firefinch owned Goulamina, this company put in the hard yards to get it to this point. You see, the maiden Mineral Resource, delivered in October 2016, was 15.5Mt at 1.48% lithium, barely a tenth of what it is today. The NPV and IRR have also been improved, standing at US\$690m and 49.5% respectively in those days, but at US\$2.94bn and 83% now.

Firefinch also sealed a Joint Venture with Chinese lithium giant Gangfeng that unlocked a debt and equity package of at least US\$170m, not to mention operational support and offtake. For the latter purpose, it is building a dedicated converter for lithium concentrate in the Jiangxi province. Ownership of the project will be split between Leo Lithium (45%), Gangfeng (45%) and Mali's government (10%).

Some immunisation to risks

Leo Lithium has done well to immunise itself from some of the risks typical for a company in its situation. Shareholders might be worried that the lithium market will move into over-supply and prices will drop. That is a possibility. But prices have to drop substantially for the project to become unviable. Bear in mind lithium spodumene prices have been as high as US\$5,000/t this year. And the DFS modelled US\$1,250p/t for the next five years and US\$900 thereafter. Also consider that the Average Life of Mine Cash Cost is just US\$312 per tonne of 6% spodumene concentrate produced.

Shareholders also need not worry about sovereign risk given that all material permits are in place and the government has a 10% stake. The bulk of the board and management all have significant experience in African resources projects with CEO Greg Walker, Chief Geologist Andy Wilde, Project Manager Darryl Butcher possessing over 35 years' experience in African resources projects. We note that Mali has been more renowned as a gold destination rather than lithium and has had two recent coup d'états. But this has not impeded its resources sector significantly. The big miners are still investing in the country (with US\$1.6bn invested in the country's four largest mines, including Barrick's Loulo-Goukoto mine and Resolute's Syma project).

Needs more funding...but not for some time

We concede that the company will need further funding for Stage 2 and the biggest risk is not being able to obtain this. But it is possible that the company could generate a significant portion from its free cash flow once it is in production. And either way, we think there should be little trouble in securing funding. For now, the company is focused on Stage 1, which is fully funded.

It is possible that the company might be hit by construction supply chain issues, considering the bulk of this construction will occur in CY23. However, the company has spent much of the past 12 months obtaining tenders for bulk earthworks, crushing and mining tenders and we would assume that Leo Lithium has taken these issues into account in awarding these tenders.

If all goes according to plan (or even if there are only minor delays), this will be one of the few lithium projects coming online in the next couple of years. That is good enough before you even consider the substantial resource and margins. With all this in mind, we think Leo Lithium deserves four stars.

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