STOCKS DOWN UNDER

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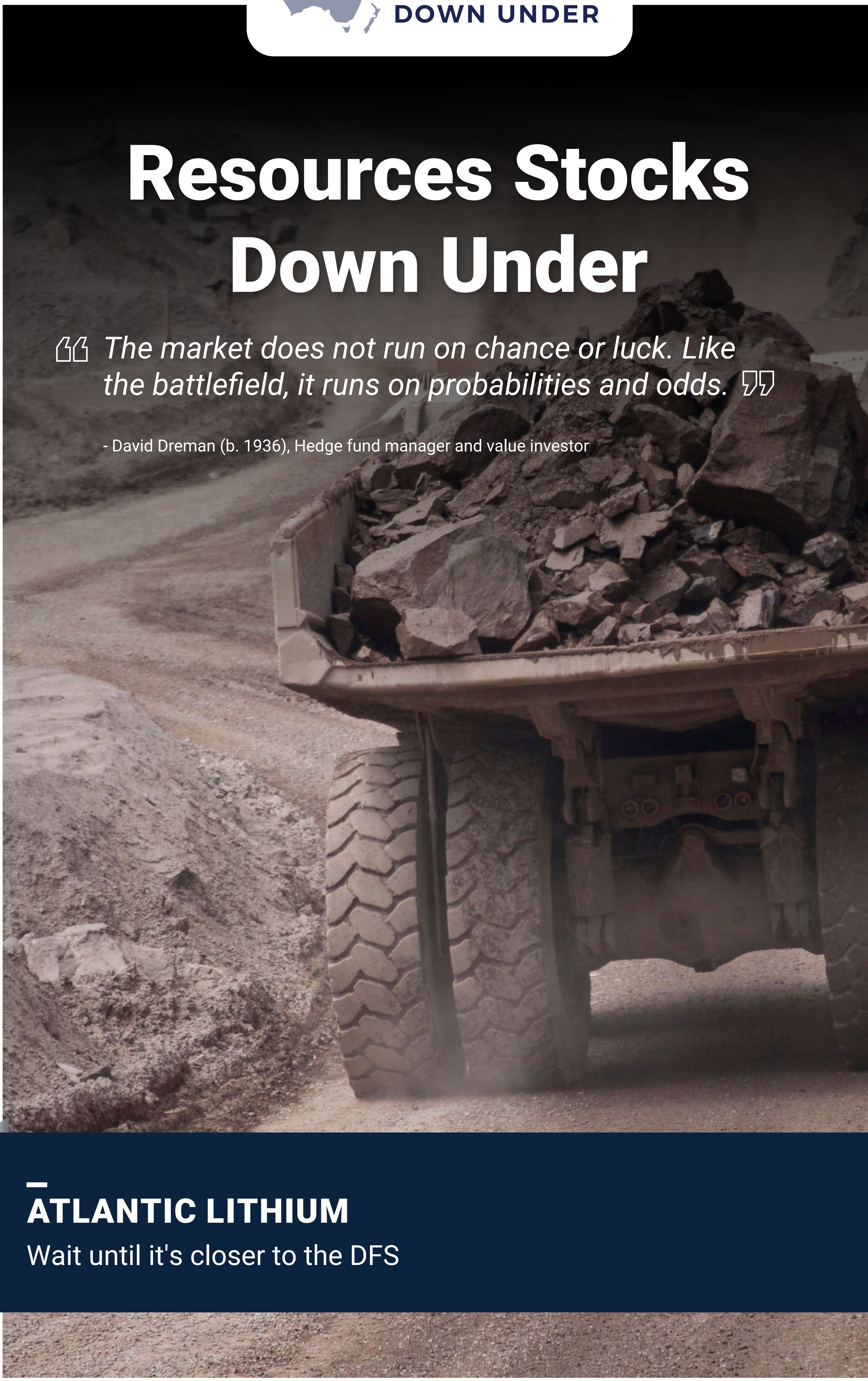

Resources Stocks Down Under

> *The market does not run on chance or luck. Like the battlefield, it runs on probabilities and odds.*

- David Dreman (b. 1936), Hedge fund manager and value investor

ATLANTIC LITHIUM

Wait until it's closer to the DFS

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Stocks Down Under rating: ★★

ASX: A11
Market cap: A$539M

52-week range: A$0.52 / A$0.995
Share price: A$0.90

In this market, to criticise any lithium stock is like shooting Bambi. Particularly one that has recorded good hits like Atlantic Lithium (ASX:A11) and that has done so in just a matter of months since its listing. Atlantic Lithium hopes its Ewoyaa project in Ghana can become the first lithium mine in West Africa and it has good odds to do so. But in the short-term, the only catalyst that could propel this company is even better drilling results than it has already achieved and that's a big risk to take. We think investors looking to get into this company are better off waiting – and in this report we'll pinpoint the time that investors should before buying in.

Share price chart

Source: Tradingview

From the AIM to the ASX

Atlantic Lithium entered the ASX back in August at 58c per share. It was already listed on London's Alternative Investment Market (AIM), but wanted exposure to Australia's market given its appetite for resources companies as well as investing generally given compulsory superannuation assets. ASX investors have 26% of shares on the register as at early November although this should rise in coming months as the company seeks to move more shares down under. One investor that was already in Atlantic Lithium before it listed on the ASX was Piedmont Lithium (ASX:PLL), which has a lithium asset in Carolina and an offtake deal with Tesla. Piedmont holds a 9.4% stake in the company and a 50% stake in the project, which includes an offtake deal. British resources investment house Assore is the largest investor with a 22.7% stake.

Before Atlantic Lithium was listed on the ASX, it was known as Ironridge Resources and was focused on gold. But since stumbling across Ewoyaa in early 2016 and having done exploration since then, it demerged the gold assets into an unlisted vehicle called Ricca Resources. Ghana is primarily a destination for gold, being the seventh leading producer in the world as well as the largest in Africa for much of the last decade (although it just lost the top spot due to poor production in 2021). Atlantic Lithium hopes to change that.

A (justified) rollercoaster ride for investors

Over the last five years Atlantic has had significant exploration success and unveiled a Preliminary Feasibility Study (PFS) in September. The PFS outlined a 2Mtpa operation over 12.5 years with an initial capital investment of US$125m. At a grade of 6% lithium, this would equate to 255,000tpa. The release of the PFS occurred just weeks after listing and set off the company's post-listing run.

All the while, it continued drilling at Ewoyaa and recorded spectacular results with one hit coming in at 4.52% lithium over 1m from 54m. It is targeting an upgraded Resource at the end of this year or early next, followed by a Definitive Feasibility Study (DFS) in the middle of next year. The DFS will be far more comprehensive than the PFS taking into account virtually all parameters (legal, economic, social and environmental as well as geological and engineering) to make a decision on whether or not the project is a go. With the company roughly half-way through the current drilling campaign, there should be more news to get shareholders excited in the short to medium term. And it won't be too long before production begins if all goes to plan. Specifically, the company plans to start in the second half of 2024.

It looks like everything is set

There is very little that's not to like about this company. As with many of its peers that did studies 12-24 months ago, lithium prices have skyrocketed making their projects seem even more appealing. The company used a price of US$1,359/t, but prices have been as high as US$7,000/t this year. It goes without saying that there'll be no shortage of demand for lithium in the years ahead. The project is just 800m from Ghana's national highway, so transporting the spodumene should not be an issue.

Investors shouldn't worry about Ghana from a sovereign risk perspective either, given it hosts countless gold projects, such as Perseus Mining's (ASX:PRU) Edikan mine and Gold Field's Tarkwa, Asanko and Damang mines. It is true that Ghana isn't the highest nation in the Heritage Foundation's Index of Economic Freedom, coming in at number 90. But this is ahead of several other developing countries that host a significant number of mining projects, such as Tanzania, South Africa, Argentina and Brazil.

Needs more funding...but not for some time

All this said, we are two stars on A11. Primarily because in the short-term the only catalyst will be drilling results and there is the risk that if the results don't turn out as good, or if the pace of announcements slows down, investors will get bored and move on to the next thing. This has happened to companies such as Lefroy (ASX:LEX), Rumble Resources (ASX:RTR), Coda Minerals (ASX:CDA) along with Coda's joint venture partner Torrens (ASX:TRN) before it was swallowed up into Coda.

Now, you might say the difference with Atlantic is that this company is in lithium, a commodity that is running hot and will continue to run hot for the foreseeable future. No doubt demand for lithium will remain solid, it is possible that prices will moderate from highs seen this year. The Office of the Chief Economist, the Australian government's commodity forecaster, tips prices will ease to US$1,800 by 2024 – still a premium to the PFS, but a hefty drop from what they are right now.

We note four further things. First, Atlantic is a 'one trick pony', hanging its hopes on one project paying off. Second, although the company has an Exploration License it will need a separate Mining License and this isn't coming for another 9-12 months. Third, the mine life is only a decade or so. And fourth, the current cost estimate is $70m-$125m. Piedmont will cover $70m, but the rest will need to be found somewhere else. As a sidenote, $27m can be attributed to the company's decision to bring crushing in house rather than to outsource it.

Ultimately, we think the company will resolve the funding and license issues. But we think the time investors should give this stock a look is closer to the DFS in the middle of next year. Until then, there's too big a risk that the share price will fall simply because another company has hotter hits and FOMO will drive investor money into that company, or simply because the news flow slows down.

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