

# Lepidico

## Alvarrões resource increases 290%

On 11 April, Lepidico announced an updated global mineral resource estimate of 5.87Mt at 0.87% Li<sub>2</sub>O at Alvarrões in Portugal, of which two-thirds (by tonnage) is contained within pegmatites and the remaining third within a 0.5m mineralised halo within the granite host rock. Although the average grade of the resource appears to have decreased, this can be attributed to the inclusion of the halo within the estimate. Excluding it, the aggregate grade of the pegmatite mineralised units has actually risen. Moreover, whereas before 100% of the resource was classified in the lower-confidence inferred mineral resource category, in the updated estimate 44.3% resides within the indicated category.

Year end	Total revenues (A\$m)	Reported PBT* (A\$m)	Cash from operations (A\$m)	Net cash (A\$m)	Capex (A\$m)
06/17	0.1	(5.4)	(3.6)	3.3	(0.9)
06/18	0.2	(7.2)	(3.0)	4.9	(3.1)
06/19e	0.0	(5.9)	(6.2)	24.3	(21.4)
06/20e	19.9	2.5	3.2	(5.2)	(32.7)

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Feasibility study anticipated later this quarter

Lithium mineralisation in the pegmatites is dominated by lepidolite, which comprises c 10–15% of the pegmatites. The mineralisation within the 0.5m halo is dominated by zinnwaldite – another lithium-mica mineral, albeit one that is still amenable to processing via Lepidico's proprietary L-Max® technology. Not only does the updated estimate represent a material increase over the December 2017 estimate, it also now exceeds the top end of our prior (non-JORC) estimate of 4.4Mt at a grade of 1.13% Li<sub>2</sub>O (see our note, [Alvarrões continues to deliver](#), published on 4 October 2017), not least via the inclusion of a newly defined sill (denoted Sill P) down to a depth of 80m. As a result, we estimate that the Alvarrões resource now contains c 126,249t of lithium carbonate equivalent, which we value at US\$4.4m (A\$6.1m), or 0.18 Australian cents per share (see our note, *Mining overview: Gold stars and black holes, Analysing the discount: From resource to sanction*, published in January 2019). Of at least as much significance, however, is the fact that Alvarrões has now been confirmed as an extensive system of lithium-mineralised pegmatites of sufficient scale and quality to provide long-term lepidolite concentrate feed for Lepidico's Phase 1 L-Max plant for well over 10 years and will contribute to a maiden ore reserve later this quarter.

## Valuation: 6.84c/share potentially rising to 7.27c

As per our most recent Outlook note, [Piloting its way through](#), published on 9 October 2018, we estimate that execution of a 7t/hour (5,000tpa) Phase 1 plant will result in free cash flow to Lepidico of A\$71.2m per year once steady-state production has been achieved, which we value at A\$0.0684/share assuming US\$30m (A\$41.8m) of equity financing at the prevailing share price or A\$0.0727/share assuming a reduced US\$21.2m in equity funding with a A\$16.8m net debt funding requirement. Note that neither of these valuations ascribe any value to the Phase 2 plant or other development options.

## Alvarrões resource update

### Metals & mining

12 April 2019

Price **A\$0.031**

Market cap **A\$104m**

A\$1.3936/US\$

Net cash (A\$m) at end December 2018 8.0

Shares in issue 3,356.2m

Free float 68%

Code LPD

Primary exchange ASX

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs 14.8 93.8 (20.5)

Rel (local) 14.3 79.6 (25.2)

52-week high/low A\$0.05 A\$0.02

### Business description

Lepidico provides exposure to a portfolio of lithium assets via its wholly owned properties, JVs and IP in Australia, Canada and Europe. Uniquely, it has successfully produced lithium carbonate from non-traditional hard rock lithium-bearing minerals using its registered L-Max process technology.

### Next events

Feasibility study Q2 CY19

Permits & approvals Mid-2018 to mid-2019

Pilot plant operation May 2019

Phase 1 final investment decision Mid-2019

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**Exhibit 1: Financial summary**

Accounts: IFRS, Yr end: June, AUD: Thousands	2015	2016	2017	2018	2019e	2020e
Total revenues	9	116	127	171	16	19,948
Cost of sales	0	0	0	0	(2,090)	(11,170)
Gross profit	9	116	127	171	(2,074)	8,778
SG&A (expenses)	(455)	(617)	(912)	(5,284)	(3,868)	(3,146)
Other income/(expense)	0	0	0	0	0	0
Exceptionals and adjustments	Exceptionals	(16)	(415)	(878)	(2,171)	0
Depreciation and amortisation	(5)	(6)	(6)	(6)	(9)	(3,277)
Reported EBIT	(467)	(923)	(1,670)	(7,290)	(5,951)	2,354
Finance income/(expense)	(18)	(5)	128	70	24	121
Other income/(expense)	(559)	(448)	(3,815)	0	0	0
Exceptionals and adjustments	Exceptionals	0	(888)	0	0	0
Reported PBT	(1,044)	(2,263)	(5,357)	(7,220)	(5,927)	2,476
Income tax expense (includes exceptionals)	0	0	0	0	0	(619)
Reported net income	(1,044)	(2,263)	(5,357)	(7,220)	(5,927)	1,857
Basic average number of shares, m	178	465	1,802	2,624	3,803	4,705
Basic EPS	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	0.0
<b>Balance sheet</b>						
Property, plant and equipment	9	4	8	27	21,390	50,794
Goodwill	0	0	0	0	0	0
Intangible assets	0	16,204	16,698	19,027	19,027	19,027
Other non-current assets	1,485	715	1,620	730	730	730
Total non-current assets	1,494	16,922	18,326	19,783	41,147	70,551
Cash and equivalents	53	650	3,307	4,860	24,288	24,288
Inventories	0	0	0	0	1	1,662
Trade and other receivables	4	3,886	706	712	1,176	1,640
Other current assets	0	0	0	0	0	0
Total current assets	57	4,537	4,013	5,572	25,465	27,590
Non-current loans and borrowings	0	0	0	0	0	29,486
Other non-current liabilities	0	0	0	0	0	0
Total non-current liabilities	0	0	0	0	0	29,486
Trade and other payables	105	614	1,663	804	991	1,177
Current loans and borrowings	115	0	0	0	0	0
Other current liabilities	40	33	46	51	51	51
Total current liabilities	260	647	1,709	856	1,042	1,228
Equity attributable to company	1,292	20,812	20,630	24,500	65,570	67,427
Non-controlling interest	0	0	0	0	0	0
<b>Cashflow statement</b>						
Profit for the year	(1,044)	(2,263)	(5,357)	(7,220)	(5,927)	1,857
Taxation expenses	0	0	0	0	0	619
Depreciation and amortisation	5	6	6	6	9	3,277
Share based payments	450	40	1,736	2,138	0	0
Other adjustments	(451)	1,036	(162)	2,066	0	0
Movements in working capital	(10)	132	133	(28)	(279)	(1,939)
Interest paid / received	0	0	0	0	0	0
Income taxes paid	0	0	0	0	0	(619)
Cash from operations (CFO)	(1,050)	(1,049)	(3,644)	(3,038)	(6,197)	3,195
Capex	(9)	(63)	(861)	(3,057)	(21,373)	(32,681)
Acquisitions & disposals net	0	32	122	110	0	0
Other investing activities	(563)	(80)	0	0	0	0
Cash used in investing activities (CFIA)	(572)	(111)	(739)	(2,947)	(21,373)	(32,681)
Net proceeds from issue of shares	1,505	1,872	7,040	7,555	46,998	0
Movements in debt	100	(115)	0	0	0	29,486
Other financing activities	0	0	0	0	0	0
Cash from financing activities (CFF)	1,605	1,757	7,040	7,555	46,998	29,486
Increase/(decrease) in cash and equivalents	(18)	597	2,657	1,570	19,428	0
Currency translation differences and other	0	0	0	(17)	0	0
Cash and equivalents at end of period	53	650	3,307	4,860	24,288	24,288
Net (debt) cash	(61)	650	3,307	4,860	24,288	(5,198)
Movement in net (debt) cash over period	(61)	711	2,657	1,553	19,428	(29,486)

Source: Company sources, Edison Investment Research

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