Lowering Target Price

Lotus Resources Limited

Specialty Minerals and Metals

12 August 2022

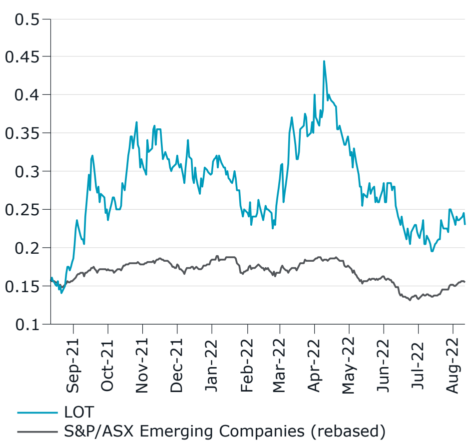
James Bullen | Analyst | Canaccord Genuity (Australia) Ltd. | jbullen@cgf.com | +61.2.9263.2728

Rating	Price Target
SPECULATIVE BUY *unchanged*	**A$0.40↓** *from A$0.45*
LOT-ASX	Price **A$0.23**

Market Data

52-Week Range (A$) :	0.14 - 0.46
Market Cap (A$M) :	272.5
Shares Out. (M) :	1,184.6
Dividend /Shr (A$) :	0.00
Dividend Yield (%) :	0.0
Enterprise Value (A$M) :	251

FYE Jun	2020A	2021A	2022E	2023E
Sales (A$M)	0.0	0.0	0.0	0.0
EBITDA (A$M)	(3.9)	(5.1)	(5.2)	(5.2)↓
Previous	-	-	-	*(2.6)*



Source: FactSet

Priced as of close of business 11 August 2022

Lotus Resources is focused on restarting the idled Kayelekera Uranium Project (KUP) in Malawi.

DFS delivered

LOT's definitive feasibility study (DFS) for the Kayelekera Uranium Project (KUP) has reaffirmed the robustness of the restart and, perhaps more importantly, the ability to quickly deliver pounds into a market that is clearly in deficit. With the company now focussing on accelerating engagement with nuclear energy utilities and securing offtake agreements with the necessary volumes and pricing mechanisms, plus the potential for an FID by year end, LOT will not be short of news flow, in our opinion. We retain our SPEC BUY rating but lower our price target to $0.40ps given the current inflationary environment.

Key DFS outcomes

- Confirmed that production can be restarted within 15 months of a restart decision.
- Production of 2.4Mlb per annum for first seven years. 9.5-year LOM.
- Ore Reserve of 23Mlb at 660ppm; the mine plan is 96% based on Ore Reserves. No change in Ore Resource for Greater Kayelekera at 51.1Mlb (which incl Livingstonia)
- US$88mn in upfront capex (US$50mn prior) with an additional US$11.5mn in pre-production costs.
- AISC for LOM has been lowered to US$37.7/lb (US$39.8/lb prior) on the back of 1) improved grade due to ore sorting; 2) lower electricity cost on the back of connection to the grid; and 3) improved acid utilisation.
- The project has significantly reduced power-related CO2 emissions by ~72% or ~21,000tpa compared to the historical operation through a number of new and innovative initiatives.

WNA provides opportunity to showcase KUP

With the World Nuclear Association conference scheduled for 7-9 September, the release of this DFS is opportune. This conference is the premier annual event for the global nuclear industry and is attended by all major fuel buyers. Kayelekera has previously produced 10.9Mlb of U3O8 and supplied a number of North American utilities. With a clear plan to address KUP's previous issues (particularly the mining methodology) and the DFS now complete, we expect the project to receive a positive reception from offtakers.

We remain more bullish about the ultimate potential of Kayelekera

The current mine plan contemplates the extraction of only 20.5Mlb of U3O8 vs a Greater Kayelekera resource of 51.1Mlb. As such we believe there is significant scope for material mine life extensions through resource to reserve conversion. Our valuation of KUP is predicated on the extraction of 30.5Mlb over a 15-year mine life.

While these assumptions are more bullish than the DFS, they are in line with our constructive uranium view (higher prices = higher extraction). We value LOT's share of KUP at A$0.26/share (80% risked), which equates to US$7.2/lb of resource.

Funding thoughts

LOT ended the JunQ with ~$20mn in cash ($5mn unrestricted). The company is currently evaluating its funding options, which could take the form of debt (likely to be a working cap facility) and equity. Additionally, the company has flagged that some traders would consider to pre-payments.

Market conditions continue to improve

The recent approval of nuclear's inclusion in the Sustainable Taxonomy draft, the potential life extension of German reactors, Japan's push to restart four incremental reactors ,the US's proposal to establish a US$4.3bn domestic purchase program and the benefits that should flow from the Inflation Reduction Act all reinforce the role nuclear could play in decarbonisation and energy security. We view this as a clear positive for our bullish uranium thesis.

For important information, please see the Important Disclosures beginning on page 7 of this document.

Figure 1: Financial summary

FY Jun 30	2020	2021	2022E	2023E	2024E
PROFIT & LOSS (A$mn)					
Revenue	0.0	0.0	0.0	0.0	0.0
Operational Costs	0.0	0.0	0.0	0.0	0.0
Royalty	0.0	0.0	0.0	0.0	0.0
Other Income	0.2	0.3	0.3	0.3	0.3
Business Devt & Expl	0.0	0.0	0.0	0.0	0.0
Corporate & Other	-4.0	-5.4	-5.5	-5.5	-5.6
EBITDA	**-3.9**	**-5.1**	**-5.2**	**-5.2**	**-5.3**
DD&A	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
EBIT	**-3.9**	**-5.1**	**-5.2**	**-5.2**	**-5.3**
Net Financing	0.0	0.2	0.5	0.4	-3.8
NPBT	**-3.9**	**-4.9**	**-4.7**	**-4.9**	**-9.1**
Tax	0.0	0.0	0.7	1.5	2.7
Normalised NPAT	**-3.9**	**-4.9**	**-4.0**	**-3.4**	**-6.4**
Sig Items, Discon Ops & Mins	-12.7	0.0	0.0	0.0	0.0
Reported NPAT	**-16.6**	**-4.9**	**-4.0**	**-3.4**	**-6.4**
Effective income tax rate	0.0	0.0	0.2	30%	0.3
CASHFLOW (A$mn)					
Cash receipts	0.2	0.1	0.0	0.0	0.0
Payments to suppliers	-1.7	-3.9	-5.5	-5.5	-5.6
Interest received	0.0	0.2	0.5	0.4	-0.6
Interest paid	0.0	0.2	0.5	0.4	-3.8
Other	-2.3	-1.8	0.0	0.0	0.0
Operating Cashflow	**-3.8**	**-5.2**	**-4.4**	**-4.8**	**-10.0**
Payments for PP&E	0.0	0.0	0.0	0.0	0.0
Payments for Development	0.0	0.0	-2.0	-22.5	-81.5
Payments for Exploration	-3.4	0.0	0.0	0.0	0.0
Asset Sales / (Purchases)	14.6	0.0	0.0	0.0	0.0
Other	-1.1	0.0	0.0	0.0	0.0
Investing Cashflow	**10.2**	**0.0**	**-2.0**	**-22.5**	**-81.5**
Share Issuance / (Buyback)	10.8	19.9	0.0	0.0	0.0
Drawdown / (Repayment) of Debt	0.0	0.0	0.0	20.0	91.5
Dividends	0.0	0.0	0.0	0.0	0.0
Other	-0.7	-0.4	0.0	0.0	0.0
Financing Cashflow	**10.1**	**19.5**	**0.0**	**20.0**	**91.5**
Surplus / Defecit	16.4	14.3	-6.4	-7.3	0.0
BALANCE SHEET (A$mn)					
Current Assets	17.1	28.2	21.7	14.4	14.4
Non-Current Assets	65.1	58.4	60.4	82.8	164.3
Total Assets	**82.2**	**86.5**	**82.1**	**97.2**	**178.7**
Current Liabilities	2.9	1.7	1.7	2.7	7.3
Non-Current Liabilities	71.7	64.3	64.3	83.2	170.1
Total Liabilities	**74.6**	**66.0**	**66.0**	**85.9**	**177.4**
Net Assets	**7.6**	**20.5**	**16.1**	**11.3**	**1.3**
Total Cash	16.5	28.2	21.7	14.4	14.4
Total Debt	0.0	0.0	0.0	20.0	111.4
Net Debt	**-16.5**	**-28.2**	**-21.7**	**5.5**	**97.0**

	2020	2021E	2022E	2023E	2024E
KEY ASSUMPTIONS					
U3O8 (US$/lb)	32.0	32.8	36.8	52.3	72.5
A$/US$	0.68	0.75	0.73	0.73	0.73
REALISED PRICES					
U3O8 (A$/lb)	0.0	0.0	0.0	0.0	0.0
PRODUCTION FORECASTS					
U3O8 (klbs)	0.0	0.0	0.0	0.0	0.0
Total (klbs)	**0.0**	0.0	**0.0**	**0.0**	**0.0**
NET RESERVES AND RESOURCES					
Kayelekera(M) (Mlbs)	4.1				
Kayelekera (M+I) (Mlbs)	31.2				
Kayelekera (M+I+I) (Mlbs)	37.5				
PER SHARE DATA					
Average Shares (Diluted, M)	145	653	959	959	959
EOP Shares (Diluted, mn)	672	959	959	959	959
Normalised EPS (A¢/sh)	-2.7	-0.8	-0.4	-0.4	-0.7
CF PS (A¢/sh)	-2.6	-0.8	-0.5	-0.5	-1.0
FCF PS (A¢/sh)	4.4	-0.8	-0.7	-2.8	-9.5
RATIOS					
Dividend Yield	0%	0%	0%	0%	0%
PE	n/a	n/a	n/a	n/a	n/a
PCF (Debt Adj)	n/a	n/a	n/a	n/a	n/a
EV / EBITDA	n/a	n/a	n/a	n/a	n/a
Gearing (ND / ND + E)	n/a	n/a	n/a	33%	99%
Net Debt / EBITDA	n/a	n/a	n/a	-106%	n/a
Interest Cover	0.0x	0.0x	0.0x	0.0x	-1.4x
ROE (Reported Profit / Av Equity)	n/a	n/a	n/a	n/a	n/a
ROIC	n/a	n/a	n/a	n/a	n/a
ROACE	n/a	n/a	n/a	n/a	n/a
FCF Yield	19%	-3%	-3%	-12%	-41%
DIVIDEND AND FRANKING					
Dividend (A¢/sh)	0	0	0	0	0
Payout ratio	0%	0%	0%	0%	0%
Franking Balance (A$mn)	0	0	0	0	0

VALUATION	**Risked**
Kayelekera Restart	0.26
Kayelekera other resources	0.08
Exploration	0.04
EV adjustments	0.02
TOTAL	**0.40**
PREMIUM/(DISCOUNT)	0.0
PRICE TARGET	**0.40**

Source: Company reports, Canaccord Genuity estimates

DFS delivered

LOT has completed the DFS for its 85%-owned Kayelekera Uranium Project (KUP) in Malawi, an asset that was successfully produced from 2009-2014. While exposure to the rapidly deteriorating spot uranium price (-70% post Fukushima) resulted in the mine being placed in care and maintenance in 2014, KUP could be restarted within 15 months of a positive investment decision.

With over US$200M in sunk infrastructure at KUP, the capital intensity is a low US$37/lb/pa (9.5-year mine life per DFS) and thanks to a number of cost-saving initiatives it's opex sits comfortably in the second quartile for current and planned uranium developments.

Using a US$75/lb price deck, we value the total project on an unrisked basis at $450mn (NPV8), with two-year payback and $129mn EBITDA at plateau.

Capex increases as expected…

The re-start cost for KUP has increased to US$88mn from the US$50mn estimate in 2020. Despite this increase, the project still ranks as one of the lowest capital cost uranium projects globally with an initial capital intensity of US$37/lb.

Importantly the budget includes US$35.8mn for new plant and infrastructure to improve the project economics and plant reliability, including a new acid plant and steam turbine (US$15.3mn), a connection to the national grid (US$13.0mn) and upgrade to the front-end processing circuit to incorporate ore sorting (US$6.0mn).

…but opex lower despite inflationary environment

LOM AISC has decreased to US$37.7/lb (US$39.8/lb prior) and C1 cash costs have fallen to US$30.1/lb (US$32.8/lb prior). This has been achievable despite cost inflation due to the following initiatives:

1. The benefits of ore sorting technology and how this influences the mine plan, the use of existing lower-grade stockpiles and the mill feed uranium grades which, combined, directly impact production rates and LOM;
2. Seizing the opportunity to connect site to the national grid, utilisation of energy produced in the onsite acid plant and solar / battery options all of which have resulted in a lower overall energy cost;
3. Including acid recovery from elution, which allow increased utilisation of the acid within the process.

The uranium market needs more supply

We continue to forecast a 25Mlb U3O8 supply deficit in 2022 and 29Mlb in 2023 (see Figure 5 for our SxD model), a situation that will likely be worse in the West, which is reducing its exposure to Russian supply. As discussed in previous research, we believe that a bifurcation of the uranium market is increasingly likely and that Western utilities will be willing to pay a premium for material sourced from lower-risk, friendly jurisdictions – as a former producer in Malawi with a reasonable track record of delivery to Western Utilities, KUP could fit this bill, in our opinion.

Next catalysts

- Completion of negotiations with the Malawian government concerning the Kayelekera Mine Development Agreement (will set taxation/royalty parameters);
- Offtake negotiations;
- Completion of FEED work;
- Completion of financing plan for the initial and working capital requirements for the restart of KUP.

Valuation update

We have valued LOT using a risked sum-of-the-parts methodology, deriving a price target of $0.40/share. We have applied a discounted cash flow (DCF) valuation for KUP and the company's corporate costs (8% discount rate). For resources not captured in our KUP DCF, we have applied a US$4 pound in-the-ground valuation. Nominal value has been applied to exploration potential which includes the company's rare earth discovery at Milenje.

Figure 2: Sum-of-the parts valuation for LOT

Asset	Equity	Net Capacity	NPV	Risking	Risked NPV	
	%	ktpa	A$mn	%	A$mn	A$ps
PRODUCTION ASSETS		**0**	**0**	**0%**	**0.0**	**0.00**
Kayelekera Restart	85%	2400	378.3	80%	302.7	0.26
DEVELOPMENT ASSETS		**2400**			**302.7**	**0.26**
Kayelekera other resources					95.5	0.08
RESOURCES					**95.5**	**0.08**
Exploration					50.0	0.04
EXPLORATION					**50.0**	**0.04**
Net Debt, Balance sheet adj. & corp. overhead						**0.02**
Premium / (Discount)						0.00
Price Target						**0.40**

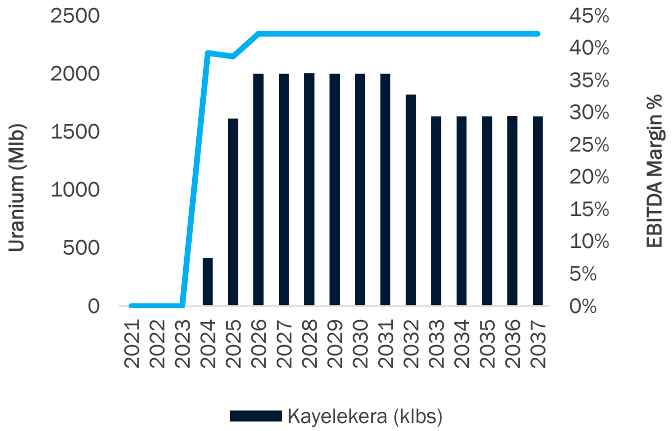
Source: Company reports, Canaccord Genuity estimates

Kayelekera

Our unrisked NPV8 for LOT's interest in Kayelekera stands at $378mn, which we have risked at 80% to allow primarily for pricing and funding uncertainty. Figure 3 and Figure 4 below illustrate our assumed production profile at Kayelekera, along with modelled revenue and EBITDA profile out to 2037 (15-year life used for valuation). Key model assumptions include:

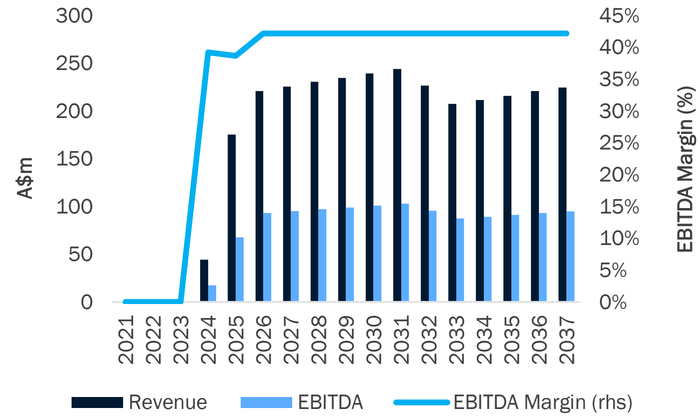
- US$88mn upfront capex
- US$30.01/lb LOM cash costs
- US$37.7/lb LOM AISC
- 15-year mine life (30.5Mlb U3O8 extracted)
- 2.4Mlb/yr plateau for seven years
- 27.5% corporate tax rate, US$230M in tax losses, 3% State royalty, 15% carried project equity
- US$75/t long term uranium price
- 0.73 USD:AUD exchange rate
- 8% discount rate

Figure 3: CGe production profile



Source: Company reports, Canaccord Genuity estimates

Figure 4: GGe revenue and EBITDA profile as modelled



Source: Company reports, Canaccord Genuity estimates

In deriving our valuation, we utilise a LT U3O8 of US$75 (inflating @ 1.0% p.a.). As discussed previously, we see a robust outlook for uranium pricing underpinned by a steady demand growth trajectory. We remain of the view that our price outlook is reasonable but note that previous uranium cycles have seen prices well in excess of this.

Supply and demand model

Figure 5: Uranium SxD model summary

(in million lbs U3O8)	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Mine Supply												
Kazakhstan	60	51	57	56	58	59	61	62	64	63	62	62
Canada	18	10	12	19	26	29	29	36	65	71	72	72
Australia	16	16	9	12	13	15	15	15	15	15	15	15
Africa	23	24	20	19	20	22	30	29	25	25	20	19
China	4	4	5	5	5	5	5	5	5	5	5	5
Russia	8	7	8	8	8	8	8	8	8	8	8	8
RoW	12	12	13	13	13	15	17	17	19	21	22	22
Total Mine Supply	**142**	**125**	**123**	**130**	**142**	**152**	**164**	**173**	**200**	**208**	**204**	**202**
Mine Supply as a % of Demand		70%	69%	72%	72%	75%	79%	78%	87%	87%	82%	79%
YoY % Change		-12%	-1%	6%	9%	7%	8%	5%	16%	4%	-2%	-1%
Secondary Supply												
Underfeeding / Tails re-enrichment	18	17	18	15	13	12	12	12	11	10	9	5
US Government (DOE material inflows)	3	2	1	1	1	-	-	-	-	-	-	-
Global reprocessed uranium / MOX	6	6	5	5	7	8	8	8	8	9	9	10
Other/Mobilization of Inventory	5	5	6	5	5	5	5	5	5	5	5	5
Total Secondary Supply	**31**	**30**	**30**	**26**	**26**	**25**	**25**	**25**	**24**	**24**	**23**	**20**
Secondary Supply as a % of Demand		17%	17%	14%	13%	12%	12%	11%	11%	10%	9%	8%
Total Supply	**173**	**155**	**153**	**157**	**168**	**177**	**189**	**197**	**225**	**232**	**227**	**222**
World Nuclear Operating Capacity (GWe)	368	366	368	376	389	399	403	420	439	458	475	493
Reactor Capacity (GWe)												
China	46	47	50	54	55	59	64	69	77	87	96	108
United States	98	97	96	98	98	98	98	98	98	98	98	98
Canada	14	14	14	14	14	14	14	14	14	14	14	14
Europe	134	132	129	124	124	124	120	125	128	128	129	127
Russia	29	29	28	29	30	30	30	30	33	36	37	42
Japan	9	9	9	11	12	12	12	13	13	15	15	15
South Korea	23	23	23	25	27	29	29	29	29	29	29	29
India	6	6	7	8	11	11	11	13	13	15	17	18
RoW	9	11	13	14	18	23	25	28	33	37	42	42
Total Reactor Capacity - Operating (GWe)	**368**	**366**	**368**	**376**	**389**	**399**	**403**	**420**	**439**	**458**	**475**	**493**
Reactor Demand (U3O8)	**176**	**177**	**178**	**181**	**188**	**193**	**195**	**203**	**212**	**221**	**230**	**238**
Demand from Change in Tails Assay (U3O8)	**-**	**-**	**-**	**-**	**9**	**11**	**14**	**17**	**17**	**17**	**18**	**17**
Total Demand (U3O8)	**176**	**177**	**178**	**181**	**197**	**204**	**208**	**220**	**229**	**239**	**247**	**255**
YoY % Change		1%	0%	2%	8%	4%	2%	6%	4%	4%	4%	3%
Market Balance	**(3)**	**(22)**	**(24)**	**(25)**	**(29)**	**(28)**	**(19)**	**(23)**	**(5)**	**(6)**	**(20)**	**(34)**
*Excludes the impact of secondary demand and SMRs												
Demand growth %		1%	0%	2%	8%	4%	2%	6%	4%	4%	4%	3%
Primary mine production growth %		-12%	-1%	6%	9%	7%	8%	5%	16%	4%	-2%	-1%
Secondary supply growth %		-4%	1%	-13%	0%	-6%	1%	0%	-2%	0%	-4%	-15%
China demand growth %		4%	5%	9%	1%	7%	9%	9%	11%	13%	10%	13%
Western world demand growth %		-2%	-1%	-1%	0%	0%	-2%	2%	1%	0%	0%	-1%

Source: Company reports, Canaccord Genuity estimates

Appendix: Important Disclosures

Analyst Certification

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this research hereby certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the research, and (iii) to the best of the authoring analyst's knowledge, she/he is not in receipt of material non-public information about the issuer.

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Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

Investment Recommendation

Date and time of first dissemination: August 11, 2022, 16:47 ET

Date and time of production: August 11, 2022, 16:47 ET

Target Price / Valuation Methodology:

Lotus Resources Limited - LOT

We value LOT using an SOTP methodology, deriving a price target of $0.40 which has been risked for the restart of Kayelekera (80%). We have applied a discounted cash flow valuation for Kayelekera (8% WACC) and the company's corporate costs.

Risks to achieving Target Price / Valuation:

Lotus Resources Limited - LOT

Financing risks

Our analysis suggests that BOE will require additional capital to fund the development costs for Kayelekera project for which we have risked our valuation. As a pre-cashflow company, LOT is reliant on equity/debt/external capital to fund capital commitments, and there is no guarantee that accessing these markets will be achieved without dilution to shareholders. Furthermore, accurate estimates of capital costs for the project remain subject to completion and feasibility studies, which may see capital requirements exceed our model assumptions. There is no guarantee that studies will result in a positive investment decision for the project.

Operational risks

Once in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical (noting flowsheet changes to address previous challenges), geological and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets and negatively impact valuation. Further, the yellow cake product specifications may differ from initial test work interpretations which can also materially impact product acceptance by customers and therefore earnings from forecast production.

Market risks

LOT's sales revenue is dependent on being able to secure term contracts for its proposed level of production and priced with the required mechanisms that will enable proactive capital and budgetary management. We note the protracted nature of negotiating uranium product offtake with the potential that timelines could be prolonged to ensure than an acceptable order book is agreed on.

Commodity price and currency fluctuation

The company, as a near-term uranium producer is exposed to commodity price and currency fluctuations, often driven by macroeconomic forces including inflationary pressure, interest rates and supply and demand of commodities. These factors are external and could reduce the profitability, costing and prospective outlook for the business

Distribution of Ratings:

Global Stock Ratings (as of 08/11/22)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	638	67.16%	35.11%
Hold	132	13.89%	15.15%
Sell	12	1.26%	16.67%
Speculative Buy	161	16.95%	39.75%
	950*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

A list of all the recommendations on any issuer under coverage that was disseminated during the preceding 12-month period may be obtained at the following website (provided as a hyperlink if this report is being read electronically) http://disclosures-mar.canaccordgenuity.com/EN/Pages/default.aspx

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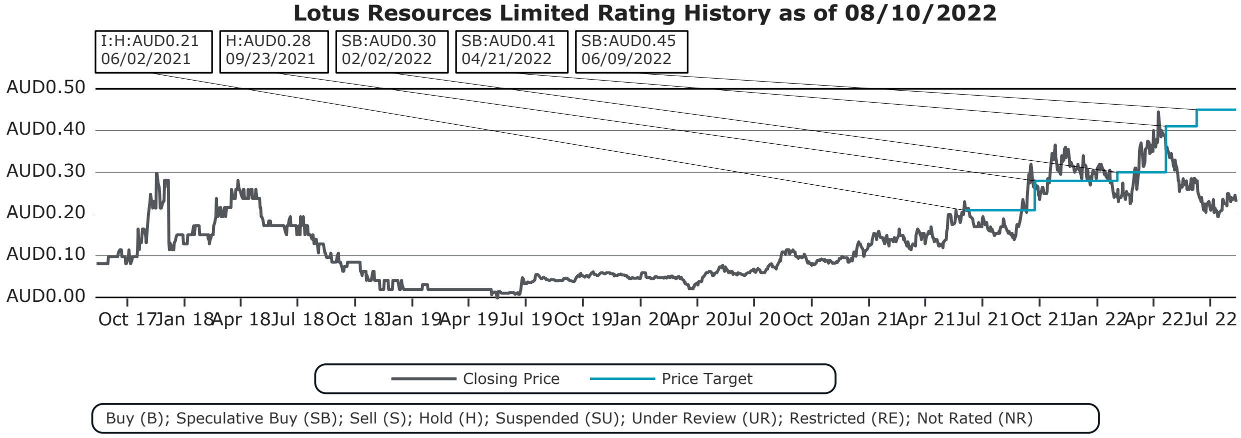

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