

# Lithium Power International Limited

## EV Materials

23 June 2022

**Rating**  
**SPECULATIVE BUY**  
unchanged

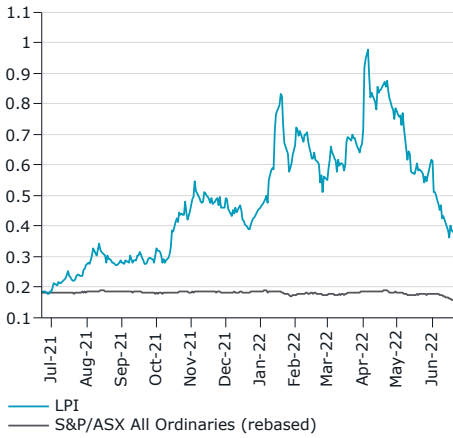
**Price Target**  
**A\$1.20**  
unchanged

**LPI-ASX**

**Price**  
**A\$0.39**

### Market Data

52-Week Range (A\$) :	0.17 - 1.04
Avg Daily Vol (000s) :	4
Market Cap (A\$M) :	134.4
Shares Out. (M) :	349.2
Enterprise Value (A\$M) :	125
Major Shareholders:	Directors & Management 15%



Priced as of close of business 22 June 2022

Lithium Power International is focused on the exploration and development of lithium projects. Its key asset is a 52% interest in the Maricunga Joint Venture, owner of the high grade Maricunga lithium brine project in Chile.

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## Moving to full ownership at Maricunga

**Maricunga JV ownership structure to be consolidated:** LPI is set to move to 100% ownership of the Maricunga brine project in Chile (see refresh below) via a scrip based mergers with JV partners MSB SpA (31.1% interest) and Bearing Lithium (BRZ:TSXV | Not Rated). Consideration will comprise the issue of ~238m LPI shares to MSB and BRZ (pro rata), which based on the closing share price today provides for a consideration value of A\$92m.

The transaction is conditional upon LPI shareholder approval, regulatory and Govt approvals, and BRV shareholder approval (with respect to the BRZ merger). The transaction is expected to be completed in Sep'22.

**Merger should support financing efforts:** We see the consolidation of the JV structure into full ownership by LPI as allowing for more centralised decision-making and, more importantly, simplifying funding for project development (including improving access to a wider range of capital providers). LPI signed a non-binding Strategic Alliance MoU with Japanese conglomerate Mitsui in May'21 (see [Strategic alliance with Mitsui for development of Maricunga](#)) that covered offtake rights (up to 15ktpa), financing rights, and participation rights in any future expansion (i.e., exploitation of Resources within "New Code" concessions; DFS development plan based on "Old Code" concessions only). We see consolidation of the JV as providing a potential pathway to moving the MoU to a possible binding arrangement.

**Consolidation is accretive on a project interest basis:** Pro forma (Figure 1), LPI's issued capital would increase by 68% but would see LPI's pro-forma interest in Maricunga increase from 51.5% to 58%. We highlight that the consideration to MSB and BRZ is at a meaningful discount to the Maricunga look through value (-24% and -19%, respectively) and an even more significant discount to our estimated attributable NPV (-69% and -67% respectively). We estimate the transaction is mostly neutral on a NAVPS and NPVPS basis.

**Maricunga brine project refresh:** Maricunga is located in the Atacama region of Chile and hosts total Resources of 2.9Mt LCE at a grade of 980ppm Li. This makes Maricunga one of the highest grade undeveloped brine projects in the world. LPI completed an updated DFS in Jan'22 (see [Maricunga DFS - first look](#)), which estimated capex of US \$626m for a 20 year, 15ktpa conventional brine project, with cash costs of US\$3,718/t. LPI is expected to move towards an FID for the project in 2H'22, with construction potentially commencing in 2023 and first production in late 2024/early 2025.

**Does consolidation open the door to M&A?** We note numerous M&A transactions over Argentinian brine projects in the last 12 months (Rio Tinto > Rincon; Zijin Mining > Tre Quebradas; Lithium Americas > Pastos Grande). With few independent companies with advanced brine assets remaining, this activity highlights the strategic value of these long-life, low-cost lithium projects. In our view, consolidation of the Maricunga JV could see LPI become a takeover target.

### Valuation and recommendation

We assume the mergers will complete; we adjust our NAV to see LPI move to 100% ownership of Maricunga and lower our risk weighting to account for increased probability of financing, partially offset by equity dilution. Our target price (risked NPV10%, LT Li2CO3 price US\$17.5k/t) remains at \$1.20.

We see consolidation as a potential catalyst for LPI (i.e., financing, M&A) and further note the high-quality Resource base at Maricunga and its status as one of the most advanced brine development projects in the world. We maintain our SPEC BUY rating.

**Figure 1: Merger pro forma analysis**

		LPI:ASX	MSB SpA	BRZ:TSXV	Pro forma
Shares on issue	m	349.15		109.1	
Price	A\$/C\$	0.39		0.20	
M/Cap	A\$m	134.42		24.58	233.02
Maricunga interest	%	52%	31%	17%	100%
CGe project NPV10%	A\$m	643.8	643.8	643.8	643.83
Attrib NPV	%	331.9	201.6	110.4	
LPI consideration shares issued	m		161.556	94.54	605.25
Pro formal LPI ownership	%	58%	27%	16%	100%
Consideration	A\$m		62.2	36.4	98.60
Maricunga look through value	A\$m	260.8	260.8	260.8	
Attrib look through value	A\$m	134.4	81.6	44.7	
Consideration vs look though value	%		-24%	-19%	
Consideration vs attrib CGe NPV	%		-69%	-67%	
CGe NAV	A\$m	432.90			714.63
CGe NAVPS	A\$	1.22			1.18
CGe NPV per share	A\$	1.06			1.06

Source: Factset, Company Reports, Canaccord Genuity estimates

Figure 2: LPI financial summary

**FINANCIAL SUMMARY**

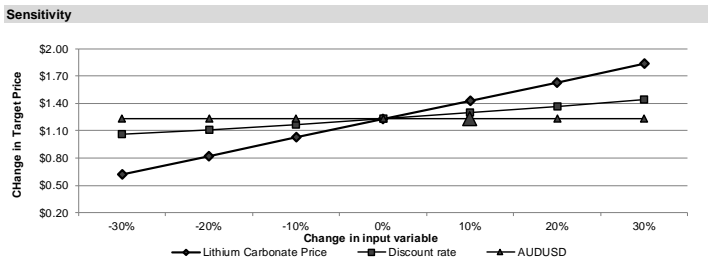
Lithium Power International LPI:ASX  
Analyst : Reg Spencer  
Date: 22/06/2022  
Year End: June

Rating: **SPEC BUY**  
Target Price: **\$1.20**

Market Information (pro forma)		
Share Price	A\$	0.39
Market Capitalisation	A\$m	226
12 Month Hi	A\$	1.04
12 Month Lo	A\$	0.17
Issued Capital (pro forma)	m	587
Options	m	0
Fully Diluted (pro forma)	m	587

Valuation (pro forma)	\$m	Risk adj	Equity	A\$m	A\$/share
Maricunga	463.6	85%	100%	547.3	0.93
Exploration	125.0			173.6	0.30
Corporate	(15.8)			(15.8)	(0.03)
Cash	9.5			9.5	0.02
ITM options	-			-	-
<b>TOTAL</b>	<b>582.3</b>			<b>714.6</b>	<b>1.22</b>
P/NAV				0.32x	
Price Target					1.20

Assumptions	2021a	2022e	2023e	2024e	2025e
Lithium carbonate min 99% Li (US\$/t)	6,921	31,519	38,750	21,875	15,000
AUD:USD	0.75	0.73	0.72	0.71	0.71



Production Metrics	2021a	2022e	2023e	2024e	2025e
<b>Maricunga (100%)</b>					
Lithium Carbonate (kt)	0.0	0.0	0.0	0.0	5.1
Cash Costs (US\$/t)	0	0	0	0	7,418

Reserves & Resources	LCE(Mt)	Grade ppm Li
<b>Maricunga (100%)</b>		
Measured	1.8	968
Indicated	1.0	939
Inferred	0.0	0
<b>TOTAL</b>	<b>2.8</b>	<b>957</b>

Directors & Management	
Name	Position
D Hannan	NE Chairman
C Garcia-Huidobro	CEO & MD
R Crookes	Exec Director
M Borda	NE Director
R Barwick	NE Director
R Fertig	NE Director
A Phillips	Co Sec

Substantial Shareholders	%
Board & Management	6.9%
Republic Investment Mgt	3.2%
Minera Salar Blanco SpA	2.7%

**Company Description**

Lithium Power International is an Australian company focused on the exploration and development of lithium projects. Its key asset is a 100% interest in the Maricunga JV, owner of the Maricunga lithium brine project in Chile. The project features a high grade resource, with a DFS for a 20ktpa LCE project completed in 2022.

Profit & Loss (A\$m)	2021a	2022e	2023e	2024e	2025e
Revenue	-2.0	0.0	0.0	0.0	0.0
Operating Costs	0.0	0.0	0.0	0.0	0.0
Corporate & O heads	-2.8	-2.4	-2.4	-2.4	-2.4
Exploration (Expensed)	0.0	1.5	0.8	0.8	0.6
<b>EBITDA</b>	<b>-4.8</b>	<b>-3.9</b>	<b>-3.2</b>	<b>-3.2</b>	<b>-3.0</b>
Dep'n	0.0	0.0	0.0	0.0	0.0
Net Interest	0.1	0.1	0.1	0.3	0.3
Tax	0.0	0.0	0.0	0.0	0.0
NPAT (reported)	-5.9	-3.7	-3.1	-2.9	6.2
Abnormals	-1.2	0.0	0.0	0.0	0.0
<b>NPAT</b>	<b>-5.9</b>	<b>-3.7</b>	<b>-3.1</b>	<b>-2.9</b>	<b>6.2</b>
EBITDA Margin	nm	nm	nm	nm	nm
EV/EBITDA	nm	nm	nm	nm	nm
EPS	-\$0.02	-\$0.01	-\$0.01	\$0.00	\$0.01
EPS Growth	nm	nm	nm	nm	-313%
PER	nm	nm	nm	nm	36.4x
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	0%	0%	0%	0%	0%

Cash Flow (A\$m)	2021a	2022e	2023e	2024e	2025e
Cash Receipts	0.0	0.0	0.0	0.0	0.0
Cash paid to suppliers & employees	-1.6	-2.4	-2.4	-2.4	-2.4
Tax Paid	0.0	0.0	0.0	0.0	0.0
Net Interest	0.1	0.1	0.1	0.3	0.3
+/- Working cap change	-0.8	-0.0	0.0	0.0	0.0
<b>Operating Cash Flow</b>	<b>-2.3</b>	<b>-2.3</b>	<b>-2.3</b>	<b>-2.1</b>	<b>-2.1</b>
Exploration and Evaluation	-0.5	-1.0	-0.8	-0.8	-0.6
Capex	0.0	0.0	0.0	0.0	0.0
JV Divs & Other	-5.7	-5.4	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>-6.3</b>	<b>-6.5</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.6</b>
Debt Drawdown (repayment)	0.0	0.0	0.0	0.0	0.0
Share capital	8.3	12.6	15.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Financing Expenses	-0.6	-0.6	-0.8	0.0	0.0
<b>Financing Cash Flow</b>	<b>7.8</b>	<b>12.0</b>	<b>14.3</b>	<b>0.0</b>	<b>0.0</b>
Opening Cash	7.1	6.3	9.5	20.7	17.8
Increase / (Decrease) in cash	-0.8	3.2	11.2	-2.9	-2.7
FX Impact	0.0	0.0	0.0	0.0	0.0
<b>Closing Cash</b>	<b>6.3</b>	<b>9.5</b>	<b>20.7</b>	<b>17.8</b>	<b>15.1</b>
Op. Cashflow/Share	-\$0.01	-\$0.01	\$0.00	\$0.00	\$0.00
P/CF	-49.2x	-58.0x	-99.4x	-107.3x	-105.2x
EV/FCF	nm	nm	nm	nm	nm
FCF Yield	-4%	-4%	-1%	-1%	-1%

Balance Sheet (A\$m)	2021a	2022e	2023e	2024e	2025e
Cash + S/Term Deposits	6.3	9.5	20.7	17.8	15.1
Other current assets	0.5	0.0	0.0	0.0	0.0
<b>Current Assets</b>	<b>6.8</b>	<b>9.5</b>	<b>20.7</b>	<b>17.8</b>	<b>15.1</b>
Property, Plant & Equip.	0.0	0.0	0.0	0.0	0.0
Exploration & Develop.	4.1	4.0	4.0	4.0	4.0
Other Non-current Assets	28.6	28.6	28.6	28.6	28.6
Payables	0.3	2.0	2.0	0.0	0.0
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Long Term Debt	0.0	0.0	0.0	0.0	0.0
Other Liabilities	-0.4	-8.3	-9.1	-7.1	-16.0
<b>Net Assets</b>	<b>39.1</b>	<b>48.5</b>	<b>60.4</b>	<b>57.5</b>	<b>63.7</b>
Shareholders Funds	78.0	90.6	105.6	105.6	105.6
Reserves	8.0	9.0	9.0	9.0	9.0
Retained Earnings	-47.1	-50.9	-54.0	-56.9	-50.7
<b>Total Equity</b>	<b>39.6</b>	<b>48.5</b>	<b>60.4</b>	<b>57.5</b>	<b>63.7</b>

Debt/Equity	0%	0%	0%	0%	0%
Net Debt/EBITDA	2.7x	4.1x	9.1x	8.5x	7.0x
Net Interest Cover	nm	nm	nm	nm	nm
ROE	-15%	-8%	-5%	-5%	10%
ROIC	-17%	-11%	-9%	-9%	19%
Book Value/share	\$0.13	\$0.14	\$0.10	\$0.10	\$0.11

Source: Company Reports, Canaccord Genuity estimates

## Appendix: Important Disclosures

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### Investment Recommendation

Date and time of first dissemination: June 22, 2022, 16:31 ET

Date and time of production: June 22, 2022, 10:41 ET

### Target Price / Valuation Methodology:

Lithium Power International Limited - LPI

Our NAV-based target price is comprised of a 51% interest in our Maricunga NPV (risked to account for financing/feasibility/development risks), and a nominal amount ascribed to LPI's Australian hard rock exploration assets, net of corporate and other adjustments.

### Risks to achieving Target Price / Valuation:

Lithium Power International Limited - LPI

Risks to our investment case include:

#### Financing risks

LPI is expected to require additional capital to fund its pro rata share of development costs for the project should feasibilities outline a viable project and a positive investment decision by JV made. As a pre-cash flow company, LPI 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 of 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 may and will be subject to risks such as plant/equipment breakdowns, metallurgical (meeting design recoveries within a complex flowsheet), materials handling 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.

Specifically for lithium brine projects, controlling process variables such as temperature, reagent dosage, solids loading and gas pressures at altitude can be a key risk to successful production ramp-ups.

Further, the actual characteristics of an ore reserve may differ significantly from initial interpretations which can also materially impact forecast production from original expectations.

#### Exploration risks

Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with exploration techniques and lack of accuracy in interpretation of geochemical, geophysical, drilling and other data. Our model assumptions include a significant amount of Indicated, Inferred and assumed resources, which may or may not ultimately be proven to be economic and converted into Reserves.

There can be no assurance that the Exploration Target at Maricunga is ultimately proven into Resources or Reserves.

#### Commodity price and currency fluctuation

The company's ability to finance potential development of the project is and will be exposed to commodity price and currency fluctuations, often driven by macro-economic 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 06/22/22)**

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	646	68.36%	37.00%
Hold	129	13.65%	17.05%
Sell	11	1.16%	18.18%
Speculative Buy	154	16.30%	42.21%
	945*	100.0%	

\*Total includes stocks that are Under Review

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

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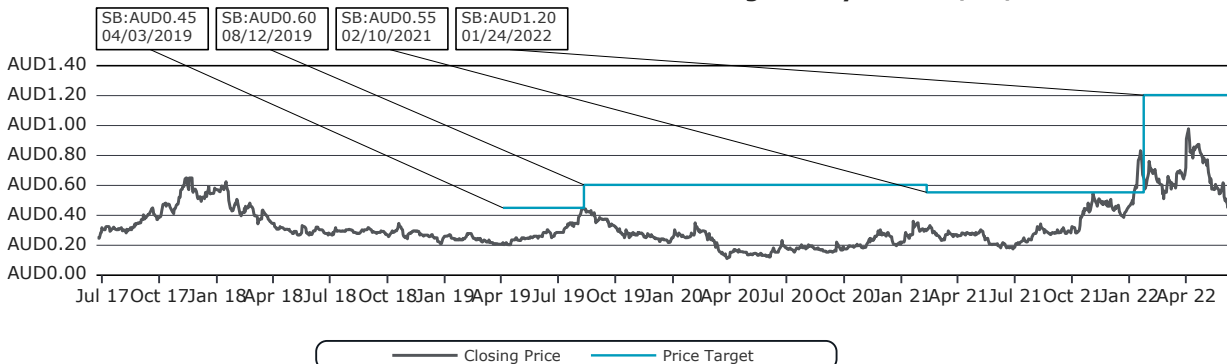
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**Lithium Power International Limited Rating History as of 06/21/2022**



Buy (B); Speculative Buy (SB); Sell (S); Hold (H); Suspended (SU); Under Review (UR); Restricted (RE); Not Rated (NR)

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