

Lithium Power International

Gaining full control of Maricunga

Project update

Metals & mining

Lithium Power International (LPI) has announced plans to acquire 100% control of its flagship Maricunga lithium project by way of a three-party all-share merger with the project's minority owners. The transaction values LPI's remaining c 48% share in the project at A\$90m, which is a significant discount to our project valuation, and allows the company to streamline the project's ownership structure ahead of the anticipated final investment decision. We have updated our financial model and valuation of LPI to reflect the transaction and the lower share price and associated higher funding dilution. Despite the current weakness in lithium shares against the backdrop of slowing economic growth, lithium prices remain high and the sector's longer-term fundamentals are intact.

Year end	Revenue (A\$m)	PBT* (A\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/20	0.0	(12.7)	(4.9)	0.0	N/A	N/A
06/21	0.0	(6.0)	(2.2)	0.0	N/A	N/A
06/22e	0.0	(9.6)	(1.9)	0.0	N/A	N/A
06/23e	0.0	(3.3)	(0.5)	0.0	N/A	N/A

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

Acquiring 100% of the Maricunga project

LPI has announced its intention to merge with MSB SpA and Bearing Lithium, its two minority partners in its flagship Maricunga lithium brine project in Chile. The transaction is structured as a three-party all-share merger and will take place in two independent stages. In the first transaction, MSB SpA will contribute its 31.31% interest to a Delaware company, which will then be acquired by LPI for 161.6m LPI shares. The Bearing Lithium transaction will see LPI issuing 0.7 shares for each Bearing Lithium common share, which in total represents c 76.3m LPI shares (plus up to 18.2m shares for options and warrants). Excluding Bearing Lithium's dilutive instruments, LPI will issue c 238m new shares (c 41% of the enlarged share capital) for the remaining 48.5% project interest. At the current share price, the deal values LPI's remaining interest at A\$90m (A\$186m on a 100% basis), or c A\$108m based on the one-month volume-weighted average price (VWAP) of A\$0.464. According to the company, the current LPI shareholders will increase their proportionate interest in the project from 51.6% to 57.9%. Both transactions should be approved by LPI shareholders, with completion of the deal targeted for September 2022.

Valuation: Consolidation is a positive step

Our valuation of the Maricunga project remains largely unchanged at A\$1.14bn at a 10% discount rate and the long-term carbonate price of US\$17,000/t. We have updated our LPI valuation to reflect the change in the ownership structure as well as the reduction in the share price assumed for the dilutive effects of the project's equity funding. On a diluted basis, our valuation of LPI reduces from A\$1.1/share to A\$1.0/share. If, as before, we assume that the project is funded at A\$0.75/share, our diluted valuation would increase to A\$1.3/share (see page 2 for valuation sensitivities). We believe that the announced transaction is positive for LPI as it is value accretive and also allows the company to streamline the project ownership structure ahead of the anticipated investment decision.

4 July 2022

Price **A\$0.40**

Market cap **A\$140m**

US\$:A\$1.44

Net cash (A\$m) at end March 2022 10.6

Shares in issue, pre-merger 349.1m

Free float 100%

Code LPI

Primary exchange ASX

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (31.0) (40.9) 110.8

Rel (local) (25.6) (33.4) 131.9

52-week high/low A\$0.98 A\$0.19

Business description

Lithium Power International's main asset is its 51.6% interest in the Maricunga lithium brine project in Chile. Subject to securing a funding package, the first stage of the project is expected to produce 15.2ktpa of high-grade lithium carbonate, starting from 2026. It also owns two early-stage exploration lithium projects in Western Australia, which it plans to demerge by end CY22.

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Valuation update

Our cash flow based valuation of the Maricunga project remains broadly unchanged as we maintain all our underlying operational and financial assumptions based on the 2022 definitive feasibility study for the 15.2ktpa carbonate operation (see our [initiation note](#) for more details), but update slightly the USD/AUD FX rate (1.44 vs 1.40 previously). At the 10% discount rate and the long-term carbonate price of US\$17,000/t we value the project at A\$1.14bn. At the same time, we have revisited our LPI valuation to reflect the proposed change in ownership structure and recent weakness in the share price in line with the overall lithium sector and broader market. We have previously assumed that at the LPI level Maricunga is accounted for on an equity basis, which was consistent with the company's current accounting and its 51.6% interest in the project. Consequently, we assumed that the required debt funding (US\$376m) was raised at the project level and equity financing (US\$250m) was contributed by the project owners on a pro rata basis. Following the repayment of debt at the project level, the remaining cash was expected to be distributed among the three owners, with LPI receiving its effective 51.6% interest.

Given the announced change in ownership, we now assume that LPI fully consolidates and funds the project and therefore retains all the cash flows from the project. Further, given the recent significant volatility in the LPI share price and the lithium sector in general, we now assume that the project's equity funding is raised at the one-month VWAP of A\$0.464/share (which is also used by the company for the transaction). Based on the above assumptions, we now calculate the diluted value of LPI of A\$1.0/share (excluding Bearing Lithium's dilutive instruments). This includes the value of the residual project resources at A\$0.1/share and compares to our previous diluted valuation of A\$1.1/share. The diluted valuation of the company is highly sensitive to the share price assumptions. We show this sensitivity analysis in Exhibit 1 below. We note that at the previous share price assumption of A\$0.75/share, our updated diluted valuation of LPI would be A\$1.3/share.

Exhibit 1: LPI diluted valuation sensitivity to changes in the share price, A\$/share

Project equity to be raised (A\$m)	361	361	361	361	361	361	361	361
LPI share price (A\$)	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0
Shares to be issued (m)	1,203	902	722	601	515	451	401	361
Total number of LPI shares (m)	1,790	1,489	1,309	1,188	1,102	1,038	988	948
Total project value (A\$m)	1,168	1,168	1,168	1,168	1,168	1,168	1,168	1,168
Diluted value of the project	0.7	0.8	0.9	1.0	1.1	1.1	1.2	1.2
Value of additional resources	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3
Total diluted valuation of LPI	0.7	0.9	1.0	1.1	1.2	1.3	1.4	1.5

Source: Edison Investment Research

The value of the project and the company is also highly sensitive to changes in the discount rate and carbonate price assumptions. We show these sensitivities in the table below.

Exhibit 2: Project valuation sensitivity to changes in lithium price and discount rate (A\$/share)

Discount rate	Long-term carbonate price, US\$/tonne					
	15,000	17,000	19,000	21,000	23,000	25,000
8.0%	0.92	1.09	1.25	1.42	1.59	1.76
10.0%	0.72	0.85	0.99	1.13	1.26	1.40
11.0%	0.64	0.76	0.89	1.01	1.13	1.26
13.0%	0.51	0.61	0.72	0.82	0.92	1.02
15.0%	0.41	0.50	0.59	0.67	0.75	0.84

Source: Edison Investment Research

Exhibit 3: Financial summary

	A\$'000s	2020	2021	2022e	2023e
Year end June		IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue		0.0	0.0	0.0	0.0
Operating costs		(2,942.3)	(2,448.0)	(3,552.0)	(3,250.0)
EBIT from continuing operations		(2,942.3)	(2,448.0)	(3,552.0)	(3,250.0)
Share of JV losses/profits		(3,786.9)	(1,967.3)	(3,000.0)	0.0
Net financing costs		183.6	8.2	0.0	0.0
Forex		(6,203.2)	(1,573.2)	(3,000.0)	0.0
Profit Before Tax (norm)		(12,748.8)	(5,980.3)	(9,552.0)	(3,250.0)
Tax		0.0	0.0	0.0	0.0
Profit After Tax		(12,748.8)	(5,980.3)	(9,552.0)	(3,250.0)
Minority interests		(95.7)	(57.3)	183.0	0.0
Discontinued operations		(319.2)	(191.1)	1,530.3	0.0
Net income		(12,972.2)	(6,114.1)	(8,204.7)	(3,250.0)
Average Number of Shares Outstanding (m)		263	283	444	628
EPS - normalised (c)		(4.94)	(2.16)	(1.85)	(0.52)
Dividend, c		0.00	0.00	0.00	0.00
Revenue growth (%)		N/A	N/A	N/A	N/A
Gross Margin (%)		N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A
Normalised Operating Margin		N/A	N/A	N/A	N/A
BALANCE SHEET					
Fixed Assets		29,300.8	32,696.3	146,646.9	241,391.1
Equity investments		25,074.9	28,594.9	0.0	0.0
PP&E		26.4	24.2	143,004.7	237,499.0
Exploration assets		4,199.4	4,077.2	3,642.1	3,892.1
Current Assets		7,391.8	6,802.0	9,545.9	6,045.9
Cash		7,141.6	6,280.7	9,341.2	5,841.2
Receivables		74.7	16.3	16.3	16.3
Other		175.5	188.4	188.4	188.4
Assets held for sale		0.0	316.7	0.0	0.0
Current Liabilities		(336.0)	(359.1)	(404.2)	(404.2)
Creditors		(293.8)	(322.2)	(322.2)	(322.2)
Short term borrowings and leases		(42.2)	(36.9)	(82.1)	(82.1)
Long Term Liabilities		0.0	0.0	0.0	(56,696.5)
Debt		0	0	0	(56,696.5)
Net Assets		36,356.5	39,139.3	155,788.5	190,336.2
Minority interests		(187.1)	(183.0)	0.0	0.0
Shareholders' equity		36,543.6	39,322.3	155,788.5	190,336.2
CASH FLOW					
Operating Cash Flow		(13,067.9)	(6,171.4)	(8,021.7)	(3,250.0)
JV contribution		3,786.9	1,967.3	3,000.0	0.0
Forex		6,503.3	1,479.6	3,000.0	0.0
Other		853.5	382.2	(148.1)	0.0
Net operating cash flow		(1,924.3)	(2,342.4)	(2,169.7)	(3,250.0)
Payments for JV capital		(5,173.5)	(6,524.7)	(7,000.0)	(94,494.2)
Exploration		(1,202.2)	(205.8)	(800.0)	(250.0)
Equity financing		100.0	7,789.6	11,765.0	37,797.7
Other		0.0	452.6	1,235.1	0.0
Net Cash Flow		(8,199.9)	(830.7)	3,030.3	(60,196.5)
Opening net debt/(cash)		(15,341.5)	(7,141.6)	(6,280.7)	(9,341.2)
FX and other		0.0	0.0	0.0	0.0
Closing net debt/(cash)		(7,141.6)	(6,280.7)	(9,341.2)	50,855.3

Source: Lithium Power International, Edison Investment Research

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