

Latin Resources Ltd

EV Materials

Rating
SPECULATIVE BUY
unchanged

Price Target
A\$0.45 ↑
from A\$0.25

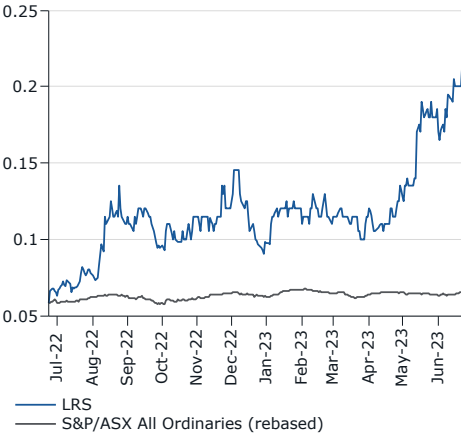
LRS-ASX

Price
A\$0.26

Market Data

52-Week Range (A\$) :	0.06 - 0.26
Market Cap (A\$M) :	663.9
Shares Out. (M) :	2,553.4

FYE Dec	2022E	2023E	2024E	2025E
EBITDA (A\$M)	(7.8)↓	(3.6)↓	(3.6)↓	(6.0)↓
Previous	0.2	0.0	0.0	45.0
Free Cash Flow (A\$M)	(12.4)	(21.7)	(18.5)	(316.0)



Source: FactSet
Priced intraday 23 June 2023

Latin Resources Limited (LRS-ASX) is an Australian-based mineral exploration company, with projects in South America and Australia.

Canaccord Genuity received a fee for its role as Lead Manager to Latin Resources \$37.1m equity raise at \$0.105 on 19 April 2023.

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Resource upgrade redefines potential

Salinas Resource increases by >240%: LRS recently released an upgraded MRE for its Salinas lithium project in Brazil, with project Resources now totalling 45Mt at 1.32% using a 0.% cut off (vs Dec'22 estimate 13Mt at 1.2% Li2O). The upgrade is primarily driven by successful drilling efforts at Colina West (see [Colina West assays confirm likelihood of significant Resource growth](#)), and while we had previously flagged the potential for significant Resource increases, the updated MRE exceeds our prior expectations. We highlight the substantial increase in M+I resources (+1,350% vs prior MRE to 30Mt at 1.37% Li2O; 67% M+I), which results from infilling of the Colina Resource and new resources defined at Colina West. We further note the 14% increase in average grades compared to the prior M+I MRE.

Further Resource potential yet to be defined: LRS is currently partway through a major 65,000m drilling program at Salinas, targeting infilling/extensions of Resources at Colina/Colina West. We note that Colina West remains open to the south-west (drilling currently targeting extensions - see Figure 2), and see potential for further increases in project Resources based on geophysical targets within a ~4km long trend.

Updated Resource can drive a step change in project potential, in our view: Our prior modelling for Salinas was based on an assumed development scenario comprising a mining inventory of 12Mt and plant throughput of 1.4Mtpa, delivering a ~10-year LOM at 180ktpa SC. In our view, the updated MRE supports the potential for a significantly larger production scenario, with a PEA (expected Aug'23) now expected to examine production capacity of up to ~500ktpa SC.

We have updated our modelled development/production scenario for Salinas on the back of the MRE upgrade. We now model a 10-year, 3Mtpa project on an assumed 30Mt at 1.25% Mining Inventory, with production commencing in early 2026 ramping up to 450ktpa SC from late CY27 (vs prior CGe 180ktpa). The larger project sees modelled capex increase to US\$295m (vs prior CGe US\$175m for 1.4Mtpa throughput), with modelled cash costs revised to US\$709/t SC on account of a higher strip ratio. On our updated modelling, we now estimate that Salinas could generate US\$360m in EBITDA at peak production rates from late 2027 (CGe SC6 US\$1,500 from 2028), and estimate an unrisks NPV10% on these assumptions of US\$1.2bn (increases to US\$2.9bn at US \$2,500/t SC6). We highlight that any further Resource growth could ultimately see our mine life assumptions as conservative.

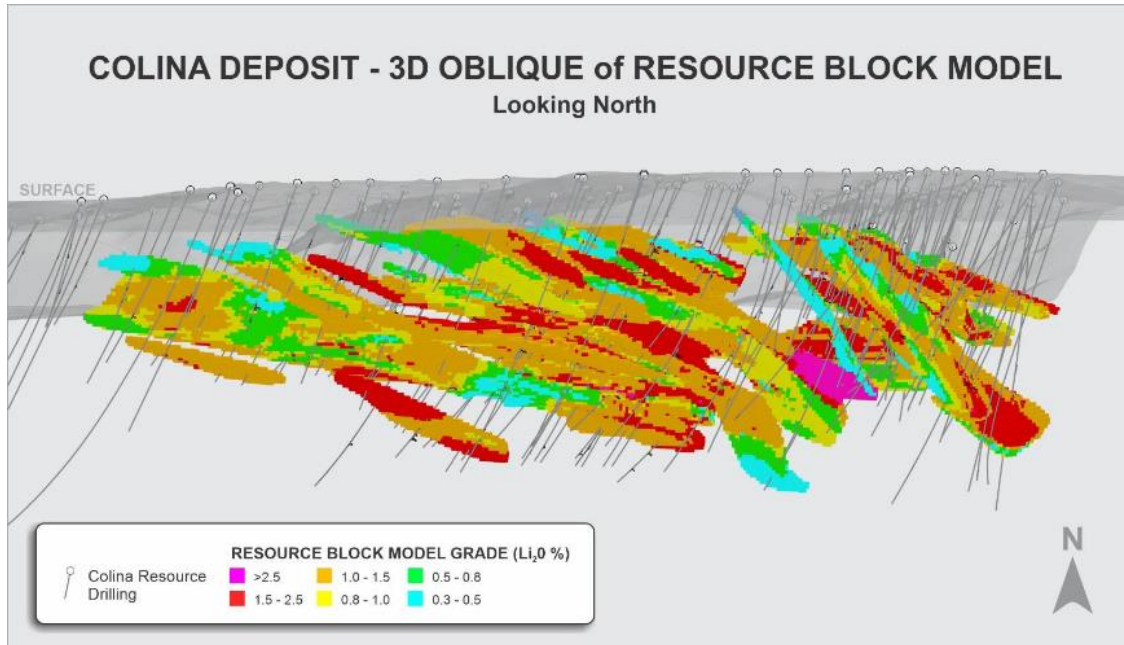
Other model revisions include pushing back first production to early 2026, as well as a staged/extended production ramp-up (noting the potential for accelerated permitting if initial plant throughput is <1.5Mtpa). Key project milestones call for an initial PEA in August 2023, possibility of further MRE updates by end 2023, DFS in CY24 and potential construction start (subject to financing) in CY25.

Recent capital raising supports aggressive drilling program: LRS recently completed an A\$37m capital raise at \$0.105/share (via a two-tranche placement). Key use of funds include resource definition drilling at Salinas, regional exploration and general working capital. We estimate pro-forma JunQ cash at A\$50m.

Valuation and recommendation

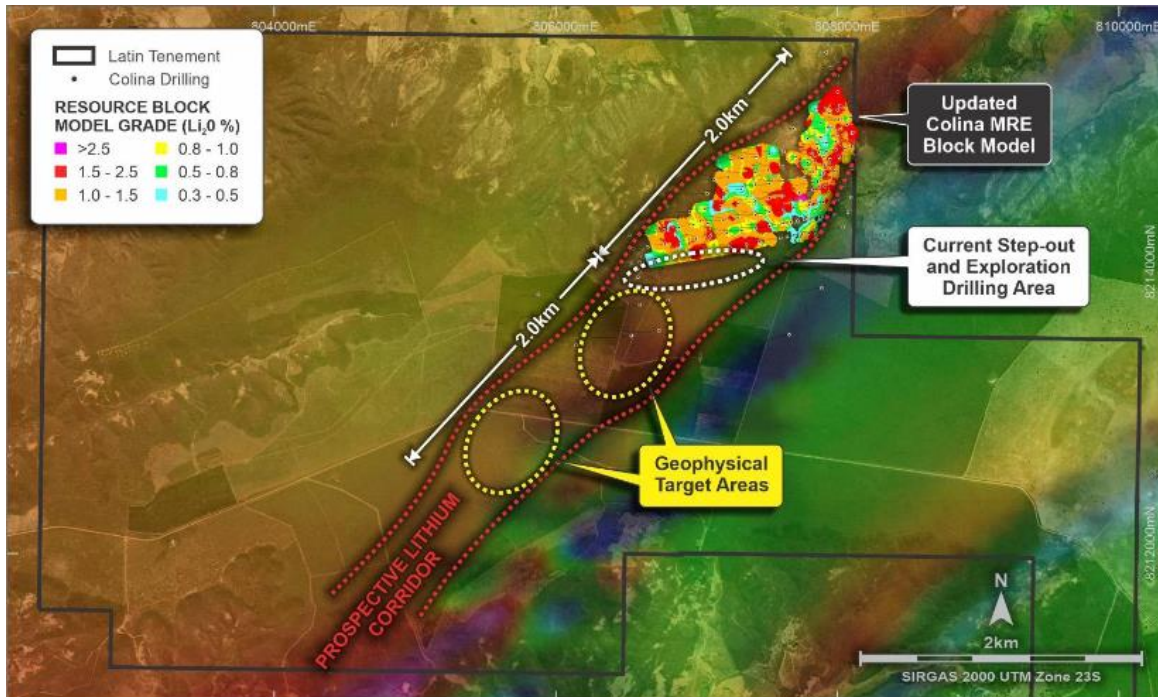
Our updated production scenario for Salinas sees our target price (risked for financing/permitting; NPV10%, LT SC6 US\$1,500/t) increase by 76% to \$0.45 (it would increase to \$1.00 at US\$2,500/t SC6). We highlight increased expectations for the development/production potential at Salinas on the back of the recent Resource upgrade. We see LRS emerging as one of the ASX's more exciting lithium developers and reiterate our SPECULATIVE BUY rating.

Figure 1: Updated Colina Resource block model (looking north)



Source: Company reports

Figure 2: Plan view showing location of Colina Resource, area of current drilling at targets on Colina Corridor



Source: Company reports

Figure 3: LRS financial summary

FINANCIAL SUMMARY

Latin Resources Ltd (ASX:LRS)

Analyst : Reg Spencer
Date: 22/06/2023
Year End: Dec

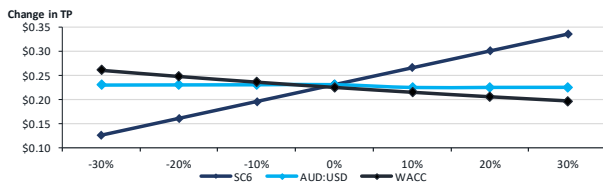
Rating: **SPEC BUY**
Target Price: **A\$0.45**

Market Information		
Share Price	A\$	0.26
Market Capitalisation	A\$m	664
12 Month Hi	A\$	0.26
12 Month Lo	A\$	0.06
Issued Capital	m	2,553
ITM Options	m	180
Fully Diluted	m	2,734

Valuation		A\$m	A\$/share
Salinas	risked NPV @10%	1,152	0.42
Investments		13	0.00
Corporate		(36)	(0.01)
(Net debt)/cash		44	0.02
Total		1,202	0.44
Price/NAV			0.59x
NAV @ Spot			
Target Price (1.0x NAV)			0.45
Price/TP			0.58x

Assumptions	2022e	2023e	2024e	2025e
Spodumene Price (US\$/t)	3,863	2,938	2,250	2,250
AUD:USD	0.69	0.65	0.66	0.69

Sensitivity



Production - by asset	2022e	2023e	2024e	2025e
Salinas				
Spodumene production (kt)	-	-	-	-
Cash costs (US\$/t)	-	-	-	-

Reserves & Resources	Mt	Grade	Mt LCE
Reserves	na	na	na
Resources	45	1.3%	1.48

Directors & Management

Name	Position
David Vilenky	Non Executive Chairman
Chris Gale	Managing Director
Brent Jones	Non Executive Director
Pablo Tarantini	Non Executive Director
Peter Oliver	Non Executive Director

Company Description

Latin Resources Limited (LRS-ASX) is an Australian-based mineral exploration company, with projects in South America and Australia. LRS is focused on its flagship Salinas hard rock Lithium Project in Minas Gerais, Brazil.

Profit and Loss A\$m	2022e	2023e	2024e	2025e
Revenue	0.2	0.0	0.0	0.0
Operating Costs	0.0	0.0	0.0	0.0
SG&A	-8.0	-3.6	-3.6	-6.0
EBITDA	-7.8	-3.6	-3.6	-6.0
Impairment/other non cash adjustments	0.0	0.0	0.0	0.0
D&A	0.0	0.0	0.0	0.0
Net Interest	0.2	0.4	0.3	-7.1
Tax	0.0	0.0	0.0	0.0
NPAT (reported)	-7.7	-3.2	-3.3	-13.1
NPAT	-7.7	-3.2	-3.3	-13.1
<i>EBITDA Margin</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>
<i>EV/EBITDA</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>	<i>4.1x</i>
<i>EPS</i>	<i>(0.00)</i>	<i>(0.00)</i>	<i>(0.00)</i>	<i>(0.00)</i>
<i>EPS Growth</i>	<i>nm</i>	<i>-68%</i>	<i>-7%</i>	<i>257%</i>
<i>PER</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>
<i>Dividend Per Share</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Dividend Yield</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>

Cash Flow A\$m	2022e	2023e	2024e	2025e
Cash Receipts	0.1	0.0	0.0	0.0
Cash paid to suppliers & employees	-3.5	-3.6	-3.6	-6.0
Tax Paid	0.0	0.0	0.0	0.0
Net Interest	0.3	0.4	0.3	-7.1
Other	-0.2	0.0	0.0	0.0
Operating Cash Flow	-3.3	-3.2	-3.3	-13.1
Proceeds/payments from sale/purchases	-0.2	-3.0	0.0	0.0
Capex	-9.1	-18.5	-15.2	-302.9
Other	-4.0	0.0	0.0	0.0
Investing Cash Flow	-13.3	-21.5	-15.2	-302.9
Debt Drawdown (repayment)	-2.4	0.0	0.0	250.0
Share capital	43.3	37.1	170.0	0.0
Dividends	0.0	0.0	0.0	0.0
Financing Expenses	1.3	0.0	0.0	0.0
Financing Cash Flow	42.2	37.1	170.0	250.0
Opening Cash	0.6	26.3	38.7	190.2
Increase / (Decrease) in cash	25.6	12.4	151.5	-66.0
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	26.3	38.7	190.2	124.2

<i>Op. Cashflow/Share</i>	<i>\$0.00</i>	<i>\$0.00</i>	<i>\$0.00</i>	<i>-\$0.01</i>
<i>P/CF</i>	<i>-203.3x</i>	<i>-209.9x</i>	<i>-203.3x</i>	<i>-50.6x</i>
FCF	-16.5	-24.7	-18.5	-316.0
<i>FCF Yield</i>	<i>-2.5%</i>	<i>-3.7%</i>	<i>-2.8%</i>	<i>-47.6%</i>

Balance Sheet A\$m	2022e	2023e	2024e	2025e
Cash + S/Term Deposits	26.3	38.7	190.2	124.2
Receivables	0.6	0.6	0.6	0.6
Other current assets	0.1	0.1	0.1	0.1
Current Assets	27.0	39.4	190.9	124.9
Property, Plant & Equip.	9.2	27.8	43.0	345.9
Investments	0.8	0.8	0.8	0.8
Other Non-current Assets	16.2	16.2	16.2	16.2
Payables	2.2	2.2	2.2	2.2
Short Term Debt	0.0	0.0	0.0	0.0
Long Term Debt	0.0	0.0	0.0	250.0
Other Liabilities	0.4	0.4	0.4	0.4
Net Assets	50.6	81.5	248.2	235.1
Shareholders Funds	101.6	138.7	308.7	308.7
Reserves	17.7	17.7	17.7	17.7
Retained Earnings	-69.7	-72.8	-76.0	-89.2
Total Equity	49.6	83.6	250.4	237.2

<i>Debt/Equity</i>	<i>5%</i>	<i>3%</i>	<i>1%</i>	<i>1%</i>
<i>Net debt/(cash)</i>	<i>-26.3</i>	<i>-38.7</i>	<i>-190.2</i>	<i>125.8</i>
<i>Net gearing (book)</i>	<i>-53%</i>	<i>-46%</i>	<i>-76%</i>	<i>53%</i>
<i>Net gearing (market)</i>	<i>-5%</i>	<i>-6%</i>	<i>-23%</i>	<i>15%</i>

Source: Company reports, Canaccord Genuity estimates

Appendix: Important Disclosures

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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: June 22, 2023, 23:32 ET

Date and time of production: June 22, 2023, 23:32 ET

Target Price / Valuation Methodology:

Latin Resources Ltd - LRS

We value the Salinas project (NPV10) at A\$861m (risked to 40%), which is based on our modelled development/production scenario and SC6 price assumptions. Our sum-of-the-parts valuation also includes a nominal valuation for LRS's other projects. Our NAV/share of \$0.25 reflects our risking for Colinas.

Risks to achieving Target Price / Valuation:

Latin Resources Ltd - LRS

Financing risks

As a pre-production company with no material income, LRS is reliant on equity and debt markets to fund development of its assets and the continuing business development activities. There is no guarantee that accessing these markets will be achieved without dilution to shareholders.

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 conversion of inferred resources and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurances can be given that exploration will delineate further mineral resources or that the company will be able to convert the current mineral resource into minable reserves.

Development risks

Developing mining operations comes with a set of risks associated with the timing and cost of a project. Delays due to equipment, labour, weather or pandemics occur and can draw down on contingency allowances provisioned by the company. Commissioning also presents as a period of elevated risk as equipment is turned on and ramped up. Failure of critical equipment can occur and further delay projects.

Operating risks

If and when in production, the company 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 considerably, and negatively impact valuation. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations, which can also materially impact forecast production from original expectations.

Commodity price and currency fluctuations

As with any mining company, LRS is directly exposed to commodity price and currency fluctuations. Commodity price fluctuations are driven by many macroeconomic forces including inflationary pressures, interest rates and supply and demand factors. These factors could reduce the profitability, costing and prospective outlook for the business.

Distribution of Ratings:

Global Stock Ratings (as of 06/23/23)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	609	65.27%	22.33%
Hold	137	14.68%	10.22%
Sell	16	1.71%	0.00%
Speculative Buy	157	16.83%	45.22%
	933*	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)

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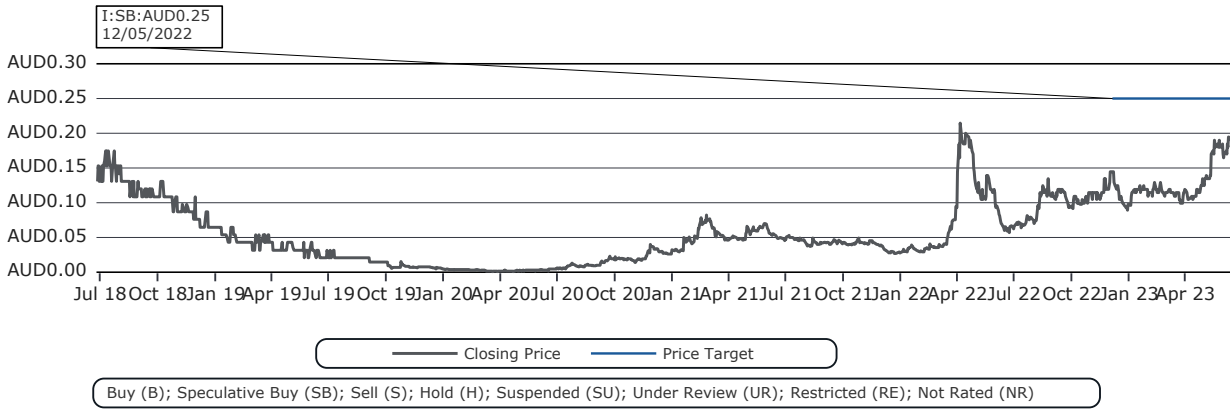
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An analyst has visited the material operations of Latin Resources Ltd. No payment was received for the related travel costs.

Canaccord Genuity received a fee for its role as Lead Manager to Latin Resources \$37.1m equity raise at \$0.105 on 19 April 2023.

Latin Resources Ltd Rating History as of 06/22/2023



Past performance

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