Capital Markets
Canaccord Genuity

9 October 2023

Raising Target Price

Latin Resources Ltd

EV Materials

Rating	Price Target
SPECULATIVE BUY *unchanged*	**A$0.70↑** *from A$0.45*
LRS-ASX	Price **A$0.26**

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Salinas site visit highlights and PEA recap

Salinas PEA recap: LRS's recently released PEA for the Salinas project was in the most part in line with our prior modelled development scenario. The project is planned to entail a phased ramp-up targeting a LOM average production of 466ktpa SC5.5 equivalent (+10% prior CGe), inc. SC5.5 and SC3 through addition of fines recovery over an 11-year LOM.

Phase 1 capex was lower than modelled at US$253m (total US$308m, inc. Phase 2/ contingency vs prior CGe USUS295m), while cash costs on an SC5.5 equiv. basis also came in lower than we expected at US$536/t, in spite of the higher strip ratio. In our view, this underscores Brazil's low cost operating environment, with the nearby Grota do Cirilo operation of Sigma Lithium (SGML-TSX: C$37.58 | SPEC BUY, PT C$73.00 | Katie Lachapelle, Canaccord Genuity Corp (Canada)) acting as a benchmark. The preliminary timetable calls for a DFS in Q1'24 (following expected Resource update – see below), FID/financing 2H'24, and first production in 2026.

Optimisation opportunities... A key takeaway of our recent site visit was a greater appreciation of the Resource upside potential at Salinas. The PEA was based on current Resources of 45Mt at 1.3% Li2O, and with 11 drill rigs operating targeting infill, extensional and regional exploration, we see upside risk to the current Resource base. Moreover, we note the potential for any Resource growth to support optimised project design (longer mine life/higher production rate, optimised economics), and as such, consider the PEA to represent only an "initial" assessment of project development potential.

...although initial assessment compares favourably against peers with promising earnings potential: From an industry benchmarking perspective we believe Salinas is attractively placed against its peer group with production ranking amongst top 10 hard rock projects globally, favourable capital intensity (US$660/t vs peer avg of ~US$1,000/t) and attractive margins (~US$1600/t at 'spot' pricing and ~US$1,000/t at our LT pricing). Under our revised modelling we estimate Salinas could generate average annual EBITDA of US$424m and US$321m in FCF. At 'spot' (US $2,300/t SC6) pricing this increases to US$740m and US$532m, respectively.

Other site visit highlights: In addition to exploration potential at Salinas, other site visit takeaways include excellent access and transport infrastructure (adjacent to major paved roads and 10km from regional centre of Salinas), professional in-country team, and strong relationships with both local and state governments (noting the project has been granted fast tracked permitting status by the State of Minas Gerais).

Valuation and recommendation

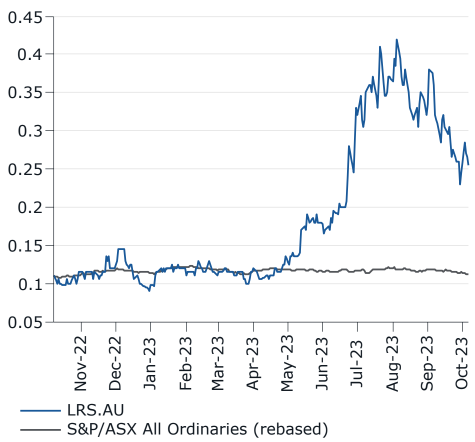
We have updated our modelling to more closely align with the PEA, with our heavily risked NPV10% (LT SC6 US$1,500/t) increasing 46% to A$1.8bn which drives an increase to our target price to $0.70 (previously $0.45).

Overall, we consider the PEA to represent a solid but "initial" assessment of development potential at Salinas, and see opportunities for project optimisation driven by exploration/Resource potential. We point to several potential catalysts over the coming 12 months including Resource update (end 2023), DFS (Q1'24) and offtake/ financing/FID (2024), as well as possible flow-on effects from regional M&A (i.e. SGML). SPECULATIVE BUY.

Market Data

52-Week Range (A$) :	0.09 - 0.43
Market Cap (A$M) :	652.7
Shares Out. (M) :	2,510.5
NAV /Shr :	0.70

FYE Dec	2022A	2023E	2024E	2025E
EBITDA (A$M)	(7.5)	(4.9)↓	(6.0)↓	(6.0)
Previous	*-*	*(3.6)*	*(3.6)*	*-*
Free Cash Flow (A$M)	(16.7)	(35.4)	(23.0)	(145.0)



Source: FactSet

Priced as of close of business 6 October 2023

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

For important information, please see the Important Disclosures beginning on page 11 of this document.

Figure 1: LRS Financial Summary

FINANCIAL SUMMARY

Latin Resources Ltd (ASX:LRS)

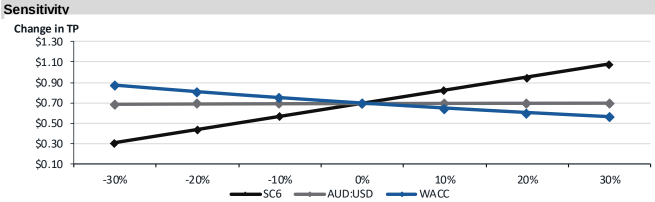
Analyst :	Reg Spencer	Rating:	**SPEC BUY**
Date:	9/10/2023	Target Price:	**A$0.70**
Year End:	Dec		

Market Information		
Share Price	A$	0.26
Market Capitalisation	A$m	653
12 Month Hi	A$	0.43
12 Month Lo	A$	0.09
Issued Capital	m	2,511
ITM Options	m	180
Fully Diluted	m	2,691

Valuation		A$m	A$/share
Salinas	risked NPV @10%	1,843	0.68
Investments		3	0.00
Corporate		(38)	(0.01)
(Net debt)/cash		29	0.01
Total		**1,866**	**0.69**
Price/NAV			0.37x
NAV @ Spot			
Target Price (1.0x NAV)			**0.70**
Price/TP			0.37x

Assumptions	2022a	2023e	2024e	2025e
Spodumene Price (US$/t)	4,570	4,191	2,625	2,800
AUD:USD	0.69	0.69	0.70	0.71

Sensitivity



Production - by asset	2022a	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 Vilensky	*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	2022a	2023e	2024e	2025e
Revenue	0.2	0.0	0.0	0.0
Operating Costs	-0.3	0.0	0.0	0.0
SG&A	-7.4	-4.9	-6.0	-6.0
EBITDA	**-7.5**	**-4.9**	**-6.0**	**-6.0**
Impairment/other non cash adjustments	0.0	0.0	0.0	0.0
D&A	-0.1	0.0	0.0	0.0
Net Interest	0.3	0.5	0.2	-6.6
Tax	0.0	0.0	0.0	0.0
NPAT (reported)	-7.3	-4.4	-5.8	-12.6
NPAT	**-7.3**	**-4.4**	**-5.8**	**-12.6**
EBITDA Margin	*nm*	*nm*	*nm*	*nm*
EV/EBITDA	***nm***	***nm***	***nm***	***5.4x***
EPS	(0.00)	(0.00)	(0.00)	(0.00)
EPS Growth	*nm*	*-52%*	*18%*	*92%*
PER	*nm*	*nm*	*nm*	*nm*
Dividend Per Share	-	-	-	-
Dividend Yield	***0.0%***	***0.0%***	***0.0%***	***0.0%***

Cash Flow A$m	2022a	2023e	2024e	2025e
Cash Receipts	0.1	0.0	0.0	0.0
Cash paid to suppliers & employees	-3.5	-4.9	-6.0	-6.0
Tax Paid	0.0	0.0	0.0	0.0
Net Interest	0.3	0.5	0.2	-6.6
Other	-0.2	-2.0	0.0	0.0
Operating Cash Flow	**-3.3**	**-6.4**	**-5.8**	**-12.6**
Proceeds/payments from sale/purchases	-0.4	-3.0	0.0	0.0
Capex	-9.0	-26.0	-17.1	-132.4
Other	-4.0	0.0	0.0	0.0
Investing Cash Flow	**-13.4**	**-29.0**	**-17.1**	**-132.4**
Debt Drawdown (repayment)	0.0	0.0	0.0	250.0
Share capital	43.3	38.1	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	**44.6**	**38.1**	**170.0**	**250.0**
Opening Cash	0.6	26.3	29.0	176.1
Increase / (Decrease) in cash	27.9	2.8	147.0	105.0
FX Impact	-0.1	0.0	0.0	0.0
Closing Cash	**28.4**	**29.0**	**176.1**	**281.1**
Op. Cashflow/Share	*$0.00*	*$0.00*	*$0.00*	*-$0.01*
P/CF	*-198.5x*	*-101.4x*	*-112.4x*	*-51.9x*
FCF	***-16.7***	***-35.4***	***-23.0***	***-145.0***
FCF Yield	*-2.6%*	*-5.4%*	*-3.5%*	*-22.2%*

Balance Sheet A$m	2022a	2023e	2024e	2025e
Cash + S/Term Deposits	26.3	29.0	176.1	281.1
Receivables	0.6	0.6	0.6	0.6
Other current assets	0.1	0.1	0.1	0.1
Current Assets	**27.0**	**29.8**	**176.8**	**281.9**
Property, Plant & Equip.	0.5	26.4	43.6	176.0
Investments	0.6	3.6	3.6	3.6
Other Non-current Assets	27.9	27.9	27.9	27.9
Payables	5.0	3.0	3.0	3.0
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**	**84.3**	**248.5**	**235.9**
Shareholders Funds	103.2	141.3	311.3	311.3
Reserves	15.9	15.9	15.9	15.9
Retained Earnings	-69.2	-73.6	-79.4	-92.0
Total Equity	**50.6**	**84.3**	**248.5**	**235.9**
Debt/Equity	*10%*	*4%*	*1%*	*1%*
Net debt/(cash)	*-26.3*	*-29.0*	*-176.1*	*-31.1*
Net gearing (book)	*-52%*	*-34%*	*-71%*	*-13%*
Net gearing (market)	*-5%*	*-4%*	*-21%*	*-4%*

Source: Company reports, Canaccord Genuity estimates

Salinas site visit highlights and PEA recap

We recently visited LRS's Salinas lithium project in Minas Gerais, Brazil. The visit followed shortly after the release of LRS' PEA, which in our view, outlined a solid development case for the project (see Salinas PEA – first look).

As a recap, the study results were broadly in line with our previously modelled development scenario for Salinas (see Figure 2) and featured a phased project targeting an LOM average production rate of 405ktpa SC5.5 and 123ktp SC3.3 (i.e 466ktpa SC5.5 equivalent) over an 11 year life.

The PEA was based on the current Resource of 45Mt (31Mt mining inventory). Based on our view of Resource growth potential supported by insights we gained from the site visit, we consider the PEA to represent only an "initial" economic assessment of the project and highlight upside potential to the PEA (i.e. longer mine life/higher production rate/optimised economics).

Figure 2: Salinas PFS vs prior CGe

Parameter	Unit	PEA	CGe	Variance
Operating metrics				
Assumed Mining inventory	Mt	31.4	30	5%
Mine Life	Yrs	11	11	0%
Strip ratio	x	17.6	11	60%
Processing*	Mtpa	3.6	3	20%
LoM avg head grade	% Li2O	1.24	1.25	-1%
SC5.5 Recovery	%	67%	72%	-7%
SC3 Recovery	%	11%	na	na
LoM avg SC5.5 production	Ktpa	405	420	-4%
LoM avg SC3 production	Ktpa	123	na	na
LoM avg SC5.5 equiv production	**Ktpa**	**466.5**	**420**	**10%**
Economics				
Total cash costs (inc royalties)	US$/t SC	536	711	-25%
Total cash costs (inc royalties)	US$/t SC 5.5 equiv	607	711	-15%
Phase 1 development capex	US$m	253	295	-14%
Phase 2 development capex	US$m	55	na	na
Total capex	**US$m**	**308**	**295**	**4%**
Capital Intensity	US$/t SC5.5 equiv	660	702	-6%
Timing				
Construction start	Q	1H'25	JunQ'25	na
First production	Q	1H'26	SepQ'26	na

Source: Company reports, Canaccord Genuity estimates

Mineral Resources/Reserves

The PEA was based on the June 2023 Mineral Resource of 45Mt at 1.32% Li2O, where a "Mining Inventory" of 31.4Mt at a diluted mine grade of 1.24% was used as the basis for the production plan.

Figure 3: Colina Mineral Resources

	Tonnes	Grade	Li2O	Contained
Resource	**Mt**	**Li2O%**	**Kt**	**Kt LCE**
Measured	0.43	1.34	5.8	14.3
Indicated	29.74	1.37	408.1	1009.3
Measured & Indicated	**30.17**	**1.37**	**413.9**	**1023.6**
Inferred	15.02	1.22	183.5	453.7
Total	**45.19**	**1.32**	**597.4**	**1477.3**

Source: Company reports

Significant exploration/Resource potential; Resource update expected Q4'23

As noted above, the site visit supported our view that the project ***hosts excellent Resource upside potential, which could support improved project economics*** (longer mine life/higher production rate/lower strip ratio).

A 65,000m drilling program is currently underway (11 rigs), targeting extensions to the SW of the Colina Resource where mineralisation remains open (Figure 5), as well as infill drilling, metallurgical drilling and regional exploration diamond drilling. An updated Resource estimate is expected in late 2023.

Figure 4: Colina discovery outcrop

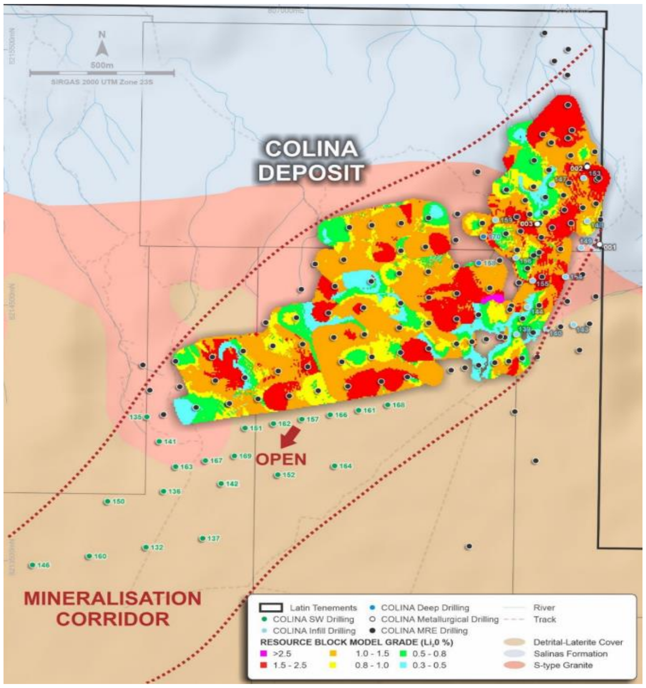
Source: Canaccord Genuity

Figure 5: Diamond infill drilling at Colina (looking north east)

Source: Canaccord Genuity

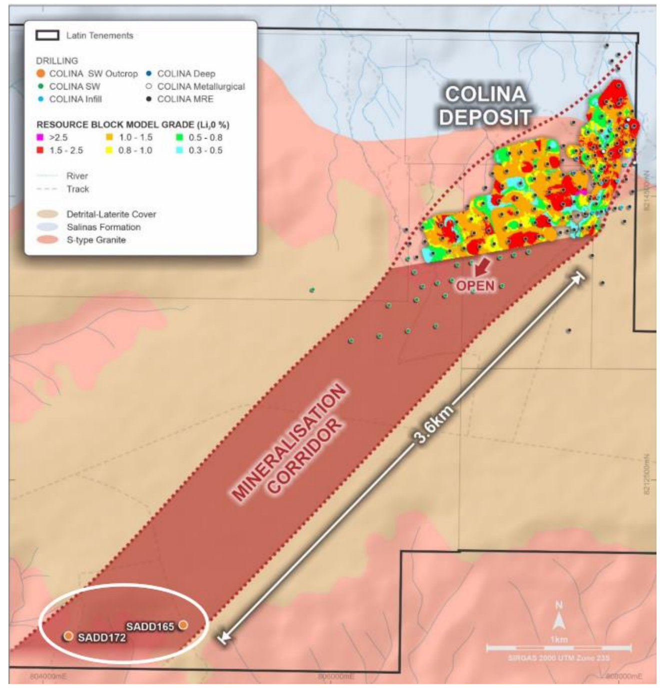
LRS has completed initial drill testing of several pegmatite outcrops located approx. 3.6km to the SW of the main Resource area (Figure 7). Assays are pending, but one zone of up to 18m was intersected. We see this as material, as this mineralisation sits outside an extensive zone of volcanic tuff that covers a portion of the existing Resource. Identification of Resources in this area of less cover could have positive implications for project economics, in our view.

Figure 6: Colina Reosurce block model and drill collar locations (mineralisation remains open to the SW)



Source: Company Reports

Figure 7: Drill collars at new Colina SW outcrop

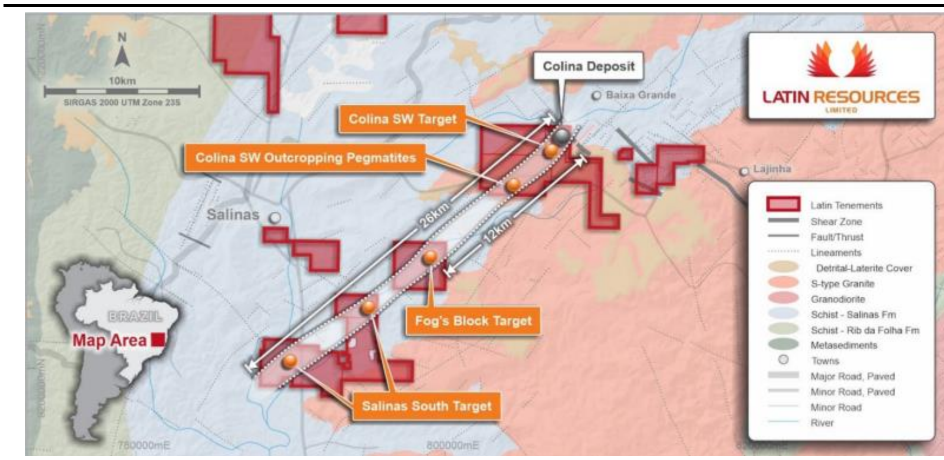


Source: Company reports

We also highlight regional potential, noting recent results from the Fog's Block prospect located ~12km to the SW of the main Colina Resource (Figure 8). Eight holes have now been completed at Fog's Block, with previously reported assays suggesting mineralisation widths of 10-17m.

While we did not visit Fog's Block, based on discussions with management this area is considered to host modest scale Resource potential (~10Mt?).

Figure 8: Colina Deposit plan, showing general location of the Colina Deposit and Fog's Block drilling programs.



Source: Company reports

Capital costs

Overall project capex was in line with our prior modelling; however, the PEA outlined a phased production plan including the production of a lower grade concentrate based on upgrading DMS fines (see Production). As such, upfront capex is US$42m lower than our prior modelling, representing a meaningful reduction in future financing requirements.

We also note that Phase 1 capex estimates include US$94m in mine development/ pre-strip costs and a 15% contingency (US$39m).

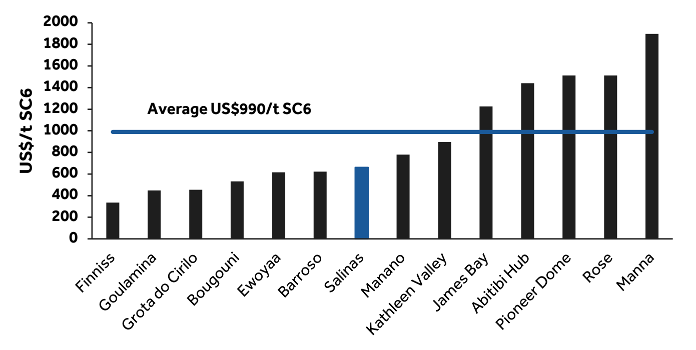
Figure 9: Salinas PEA capital cost breakdown

Capex Item	Currency	Phase 1	Phase 2	Total
Mine	US$m	94	0	94
Process plant	US$m	78	42	120
Environment equipment (water & dry stacl	US$m	32	0	32
Site infrastructure	US$m	10	0	10
Closure	US$m	0	0	0
Contingency	US$m	39	13	52
Total CAPEX	US$m	**253**	**55**	**308**

Source: Company reports

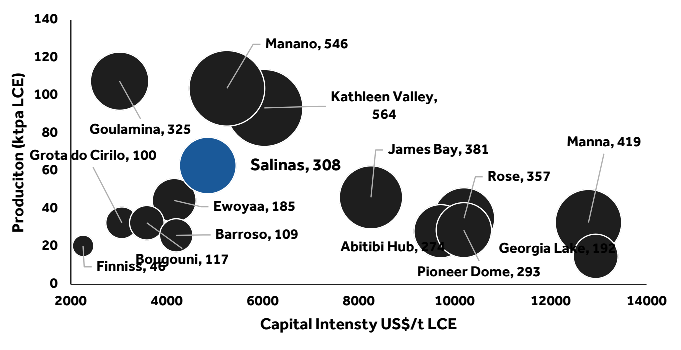
From an industry benchmarking perspective, we believe Salinas is attractively placed against peers with estimated capital intensity of ~US$660/t SC6 equivalent (industry average ~US$1,000/t). This underscores Brazil's favourable cost environment relative to other key lithium regions such as Australia.

Figure 10: Peer hard rock capital intensities (SC6 equiv.)



Source: Company reports, Canaccord Genuity estimates

Figure 11: LCE capital intensity



Source: Company reports, Canaccord Genuity estimates. Bubble size is capex.

Mining and production

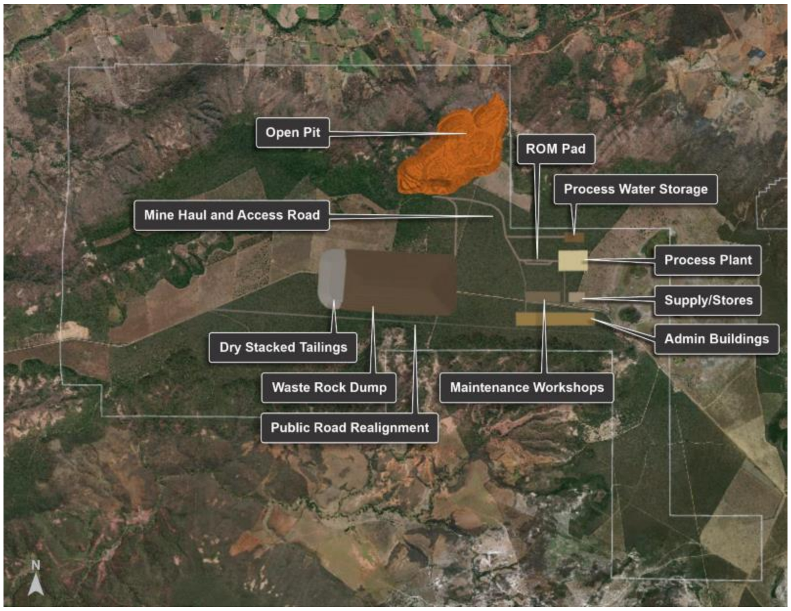
Mining is planned to be via open pit methods, with a reported strip ratio of 17.6:1, however this includes approximately 27Mt of capitalised pre-strip. Excluding this results in an "operating strip ratio" over the PEA LOM of ~16:1.

While this is considered a moderate-high strip ratio and result in large material movements, this is partially offset by the low operating cost structure in Brazil (see Operating Costs). Moreover, and as noted above, the discovery of additional near surface Resources along the Salinas trend could lead to further optimisation of the mine plan and improvement in strip ratio.

Ore is planned to be fed into a conventional Dense Media Separation processing facility with total capacity of 3.6Mtpa, however, initial feed rates of 1.5Mtpa are expected (facilitates accelerated permitting timelines). The currently proposed flowsheet incorporates a fines recovery circuit (spirals) which increases overall lithium recoveries to 78.3% (vs prior CGe 70%) through the production of a "low grade" concentrate of 3% Li2O (versus main product at 5.5%). LRS is currently assessing the inclusion of ore sorting into the flow sheet design.

While a floatation circuit would likely increase overall recoveries, incorporation of the spiral circuit reduces opex/capital intensity and aids permitting through removal of use of reagents/chemicals.

Figure 12: Proposed Colina mine open pit and infrastructure layout



Source: Company reports

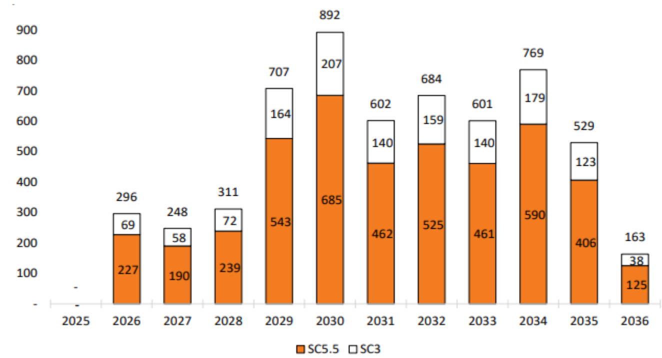
Figure 13: Core from infill drilling at Colina showing medium sized spodumene crystals

Source: Canaccord Genuity

We note that Resources within the eastern end of the proposed pit sit relatively close to the tenement boundary. Discussions with LRS' in country team suggest that the Government is looking at the introduction of new legislation which could allow access to neighbouring tenements for mining infrastructure with no compensation. We also note that LRS own the land on which the neighbouring tenement is situated.

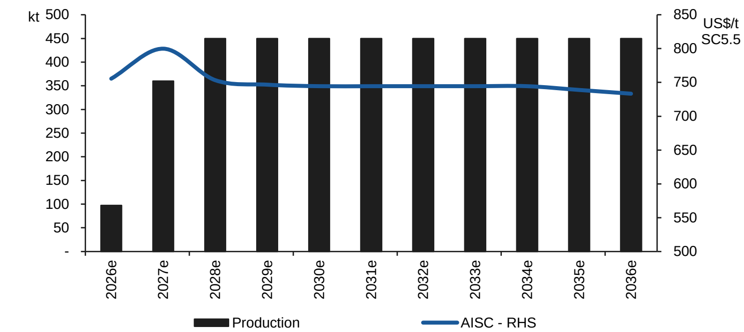
The PEA envisaged SC5.5 production averaging 405ktpa (peak of 685kt in CY2030) and the fines circuit producing a LoM average of 123ktpa SC3 (CY'30 peak of 207kt). In SC5.5 equivalent terms LoM average production equates to 466.5ktpa, a 10% increase against prior CGe of 450ktpa SC5.5. While SC3 material could fetch a ~50% discount against SC6 pricing benchmarks, it would still generate attractive margins of ~US$800/t at current 'spot' prices. We note LRS is undertaking a mine plan optimisation which paired with near surface resource growth potential could "smooth" the production profile (Figure 7).

Figure 14: LRS PEA SC production profile



Source: Company reports

Figure 15: Prior CGe SC5.5 production profile*



Source: Canaccord Genuity estimates. *Denotes FY.

Operating costs

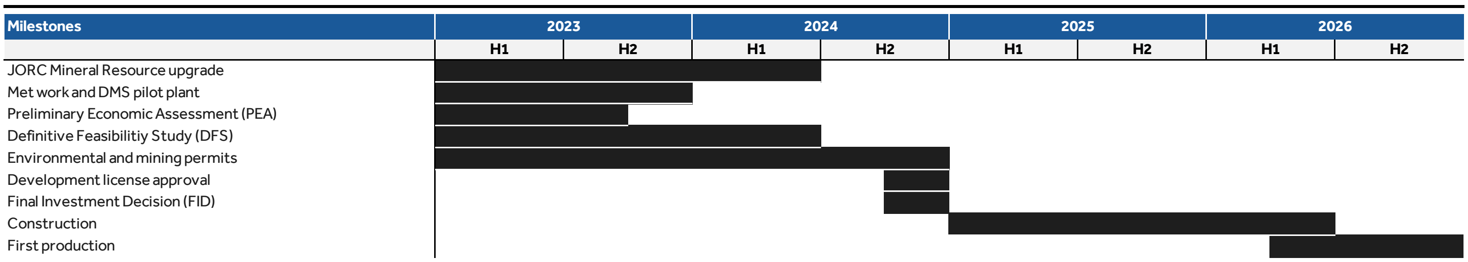
The PEA estimates attractive total cash costs (inc royalties) of US$536/t SC (i.e. SC3 +SC5.5), in SC5.5 terms this equates to US$607/t SC5.5 equivalent (vs our prior estimates of US$711/t SC5.5). We note this is primarily a function of low cost DMS processing (i.e. US$4.60/t ore processed from 2028) and a favourable cost environment (i.e. mining costs of US$3.50/t).

We also highlight that SGML's nearby Grota do Cirilo operation provides a useful benchmark, with similar strip ratios (in Stage 1) and estimated cash costs of US$450-500/t.

Project timeline

Current project development timelines are illustrated in Figure 10. Key near-term milestones include Resource updates ahead of the 1H'24 DFS and 2H'24 FID. Beyond this, the timeline outlines construction in 1Q'25 and first production in 2Q'25, is in line with our prior assumptions (noting Minas-Gerais is a pro mining jurisdiction and project characteristics, we see little permitting risk).

Figure 10: Salinas Project

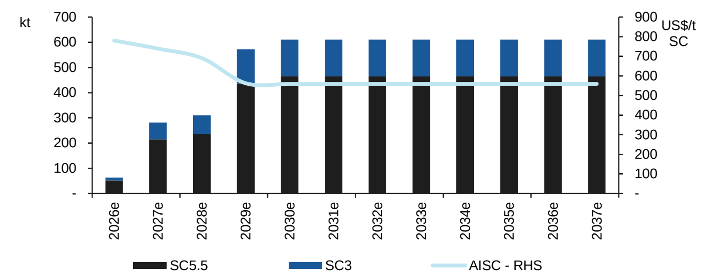


Source: Company reports, Canaccord Genuity estimates

Forecasts

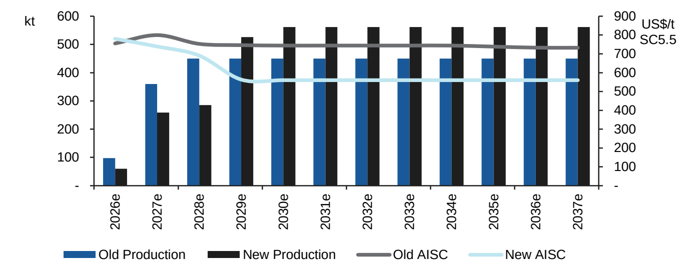
We have revised our project model assumptions to mostly align with the PEA, our updated production modelling is illustrated below. Our base case assumes an implied price (on LiO2 content) from our LT SC6 price of US$1,500/t (i.e. 92% payability for SC5.5 and 50% for SC3). As a result, we estimate Salinas generating annual EBITDA of US$424m and FCF of US$321m (see Figure 13 and Figure 14). At 'spot' pricing of ~US$2,300/t SC6 our annual average EBITDA would increase 75% to US$740mpa.

Figure 11: CGe product split SC



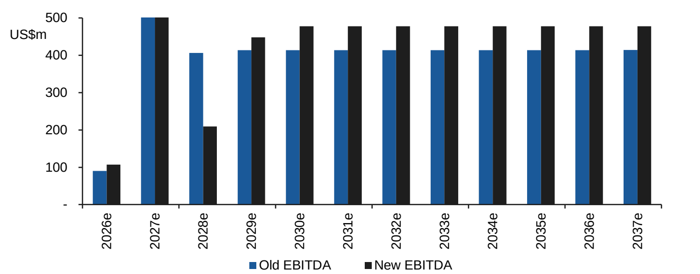
Source: Canaccord Genuity estimates

Figure 12: CGe production old vs new SC5.5 equivalent



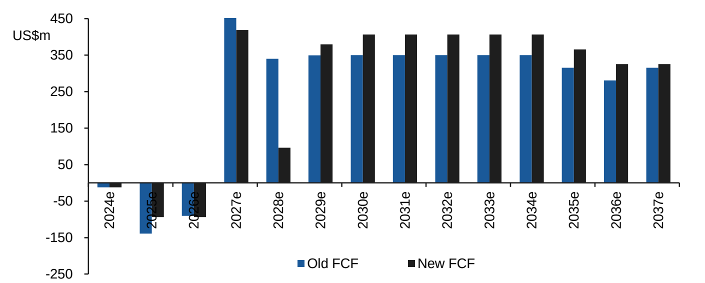
Source: Canaccord Genuity estimates

Figure 13: CGe Salinas (100%) EBITDA old vs new



Source: Canaccord Genuity estimates

Figure 14: CGe Salinas (100%) cash flows old vs new



Source: Canaccord Genuity estimates

Valuation

Following revisions to our project model to align with the PEA, we derive a project NPV of ~A$2.6bn, which we risk to 30% (i.e. 70% of NPV) to account for financing, permitting and development stage risk. Including cash, investments and other adjustments, we derive a target price of $0.70 as illustrated in Figure 17.

Figure 17: CG NAV estimate

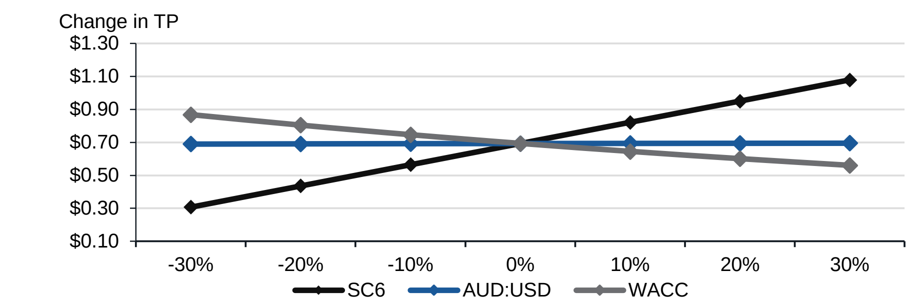
	US$M	A$M	RISK ADJ.	EQUITY	A$M	PER SHARE	Target Operating NAV/share
OPERATING NAV							
Salinas	1,660	2,633	70%	100%	1,843	$0.68	$0.68
SUB TOTAL	**1,660**	**2,633**			**1,843**	**$0.68**	**$0.68**
NON OPERATING NAV							
Exploration, Projects & Other	0	-			-	$0.00	$0.00
Investments	2	3			3	$0.00	$0.00
Corporate	(24)	(38)			(38)	-$0.01	-$0.01
ITM options	18	28			28	$0.01	$0.01
(Net debt)/cash	18	29			29	$0.01	$0.01
TOTAL	**1,675**	**2,656**			**1,866**	**0.69**	**$0.69**
				Target (rounded)			A$0.70

Source: Canaccord Genuity estimates

Valuation sensitivity

We highlight that at 'spot' prices of ~US$2,300/t SC6 our unrisked NPV increases to A$4,686m or $1.75.

Figure 18: NPV sensitivity to SC6, WACC and FX



Source: Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: October 08, 2023, 23:00 ET

Date and time of production: October 08, 2023, 23:00 ET

Target Price / Valuation Methodology:

Latin Resources Ltd - LRS

We value the Salinas project (NPV10) at A$1,137m (risked to 65%), 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 $0.45 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 10/08/23)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	616	67.03%	23.05%
Hold	119	12.95%	10.92%
Sell	15	1.63%	6.67%
Speculative Buy	159	17.30%	46.54%
	919*	100.0%	

*Total includes stocks that are Under Review

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

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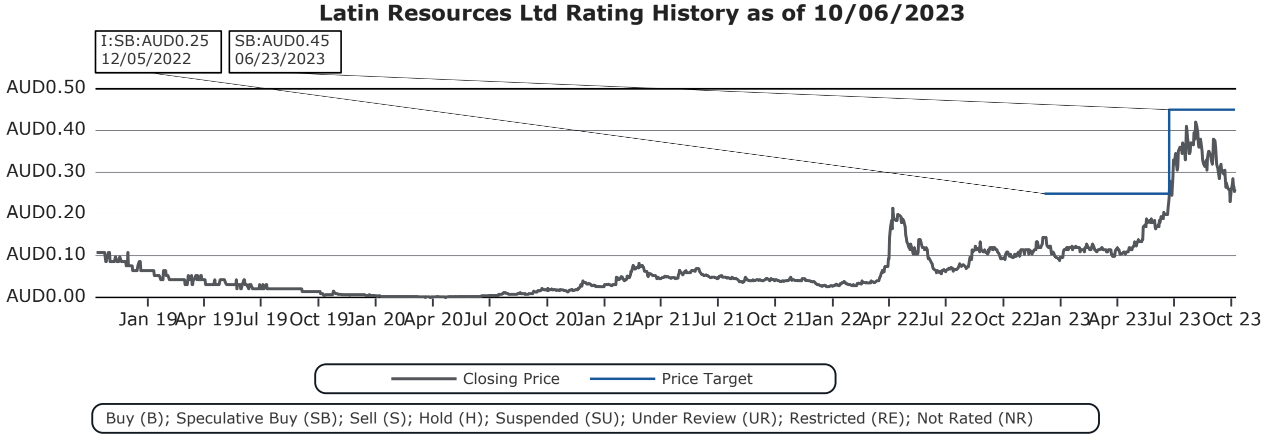
Latin Resources Ltd Rating History as of 10/06/2023



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