

Lithium Ionic

LTH-TSXV

Rating
OutperformPrice: Feb-5
\$0.85Target ↓
\$3.00Total Rtn
253%

Drilling Extends Salinas Mineralization, New High-Grade Zone Identified

Bottom Line:

Lithium Ionic reported drill results from its 85%-owned Salinas project, extending mineralization and identifying a new high-grade pegmatite dyke ~1.5km north of the main Salinas zones. Results continue to expand the mineralization boundaries and demonstrate the exploration potential at Salinas. An initial resource for Salinas is expected later this month. With the decline in spot lithium prices weighing on lithium equities, we have lowered our target-setting multiple and the market-based \$/tonne LCE multiple we ascribe for exploration upside. As a result, our target price is lowered to C\$3.00 (from C\$5.00).

Key Points

Salinas mineralization extended 250m along strike. New assay results have extended mineralization towards the southwest, with attractive grades near surface (Exhibit 1). Several highlights are: (i) 1.22% Li₂O over 16.7m, including 1.59% Li₂O over 6.3m and 1.36% Li₂O over 7.0m directly at surface from 48.0m down hole; (ii) 1.51% Li₂O over 11.9m from 76m down hole; and (iii) 1.36% Li₂O over 10.0m from 35m down hole. Drilling has been guided by an extensive soil sampling program used to identify prospective targets and four drill rigs are currently operating on the property as part of the company's planned 50,000m exploration program for 2024.

New high-grade pegmatite dyke identified, 1.5km north of main Salinas zones.

The company interprets this new area to be a northeast extension of the outcropping "Lavra do Zoe" pegmatite, a site of periodic historical mining. Results include 1.63% Li₂O over 5.6m, 1.28% Li₂O over 3.6m, and 1.54% Li₂O over 4.0m.

Lowering target-setting multiples in light of current market environment. The decline in spot lithium prices (spot spodumene price down ~90% in the last twelve months) has weighed on lithium equities. In light of the current market environment, we are reducing our target-setting P/NAV multiple from 0.75x to 0.60x. We continue to assume ~50% resource growth to 50Mt (adding an incremental 17Mt at the current resource grade of 1.38% Li₂O) but lower our EV/resource multiple from US\$125/t LCE previously to US\$75/t LCE, which is in line with the peer median and where the company is currently trading. The company has a current cash position of ~C\$10M and we model a C\$20M equity raise in mid-2024. As a result of our lowered target-setting multiples, and the assumption that future equity is raised at a lower price, our target price declines to C\$3.00.

Key Changes

Target	Estimates	Q4 / 23E	2023E
\$3.00↓	EPS	\$(0.05)	\$(0.46)
\$5.00	Previous	\$(0.04)	\$(0.45)
	CFPS	\$(0.09)	\$(0.34)
	Previous	\$(0.08)	\$(0.33)

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Battery Materials

Greg Jones

gregory.jones@bmo.com

Max Yerrill, CFA

max.yerrill@bmo.com

Legal Entity: BMO Nesbitt Burns Inc.

Analyst

(416) 361-5480

Associate

(437) 214-3503

2YR Price Volume Chart



Company Data			in C\$
Dividend	\$0.00	Shares O/S (mm)	144.6
Yield	0.0%	Market Cap (mm)	\$123
NAV	\$4.84	P/NAV	0.2x

BMO Estimates				in C\$
(FY-Dec.)	2023E	2024E	2025E	
EPS	\$(0.46)↓	\$(0.14)	\$(0.08)↑	
CFPS	\$(0.34)↓	\$(0.14)	\$(0.06)↑	
Revenue	\$0	\$0	\$0	
EBITDA	\$(57)↓	\$(21)	\$(19)	

Consensus Estimates			
	2023E	2024E	2025E
EPS	\$(0.41)	\$(0.17)	\$(0.19)

Valuation			
	2023E	2024E	2025E
P/E	NM	NM	NM
P/CFPS	NM	NM	NM
EV/EBITDA	NM	NM	NM

QTR. EPS	Q1	Q2	Q3	Q4
2023E	\$(0.22)a	\$(0.10)a	\$(0.09)a	\$(0.05)
2024E	\$(0.04)	\$(0.04)	\$(0.03)	\$(0.03)
2025E	\$(0.01)	\$(0.02)	\$(0.02)	\$(0.03)

Our Thesis

We rate Lithium Ionic shares Outperform based on (1) its Bandeira project, which is envisioned as a low-capex underground mine whose small footprint is expected to streamline permitting and path to production (expected in 2026), and (2) its position as the second-largest landholder in Brazil's Lithium Valley provides the potential for further resource growth over the large underexplored property.

Lithium Ionic - Block Summary Model

Commodity Prices & Fx	2023E	2024E	2025E
Spodumene conc. SC5.5 (US\$/t)	1,696	1,192	1,753
USD:CAD	0.777	0.764	0.786
Production	2023E	2024E	2025E
Spodumene conc. (t)	0.0	0.0	0.0
Cash Costs	2023E	2024E	2025E
Cash Costs (C\$/t conc.)	0	0	0
Key Financial Metrics (c\$M)	2023E	2024E	2025E
Free Cash Flow	(21)	(23)	(76)
Net Debt (Cash)	(170)	(7)	(73)
Shares Outstanding (M)	196	151	251
Summary Income Statement (C \$M)	2023E	2024E	2025E
Revenue	0	0	0
Gross Profit	0	0	0
G&A	(4)	(5)	(5)
EBITDA	(19)	(21)	(19)
Depreciation	0	0	(4)
Net Interest Expense	(3)	0	(13)
Income Taxes	0	0	0
Operating Net Income	(19)	(21)	(23)
Summary Cash Flow Statement (c\$M)	2023E	2024E	2025E
Cash from Operations	(19)	(21)	(19)
Capital Expenditures	0	0	(57)
Cash from Investing	(2)	(2)	(57)
Share Issuance	179	20	142
Debt Issuance	237	0	213
Year End Cash Balance	407	7	287

Source: BMO Capital Markets, Company Reports

New Scenarios

Valuation

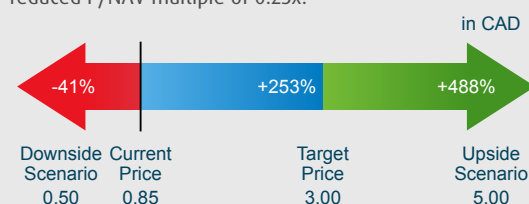
Our target price is set based on a 0.60x multiple of our 10% NAVPS of C\$4.84. We assume resource growth to 50 Mt (up from 30 Mt) and value the incremental resources at US\$75/t LCE, generally in line with where the company currently trades. Lithium Ionic currently trades at 0.18x our NAVPS estimate.

Upside Scenario \$5.00

Our upside scenario considers capital and operating costs in line with the PEA, production starting one quarter earlier than our Base Case (Q1/2026), and an 8% discount rate (vs. 10% base case) at a P/NAV multiple of 0.75x.

Downside Scenario \$0.50

Our downside scenario pushes back first production to Q2/2029 to reflect a delayed permitting / construction timeline, 50% higher initial capital costs and operating costs, mines 9 Mt less ore to estimate the exclusion of inferred resources, and excludes any resource growth at a reduced P/NAV multiple of 0.25x.


Key Catalysts

Bandeira Environmental Assessment (Late Q1/24), Feasibility Study (early-2024), Bandeira LAC approval for environmental and social license and authorization to begin construction (mid-2024), results from ongoing 50,000 m drill program.

Company Description

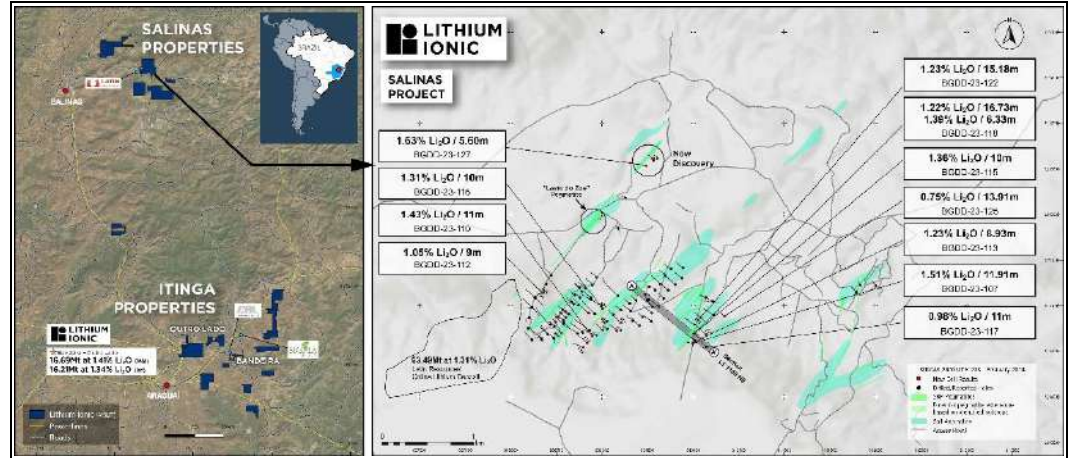
Lithium Ionic Corp. is a hard rock lithium developer focused on advancing its 100%-owned flagship Itinga Projects and its 85%-owned Salinas Project, located in Minas Gerais State, Brazil. A 2023 PEA on the company's Bandeira project outlined a low capital, low-cost underground operation expected to benefit from an accelerated permitting process and timeline to production.


 LTH-TSXV
Research


Glossary

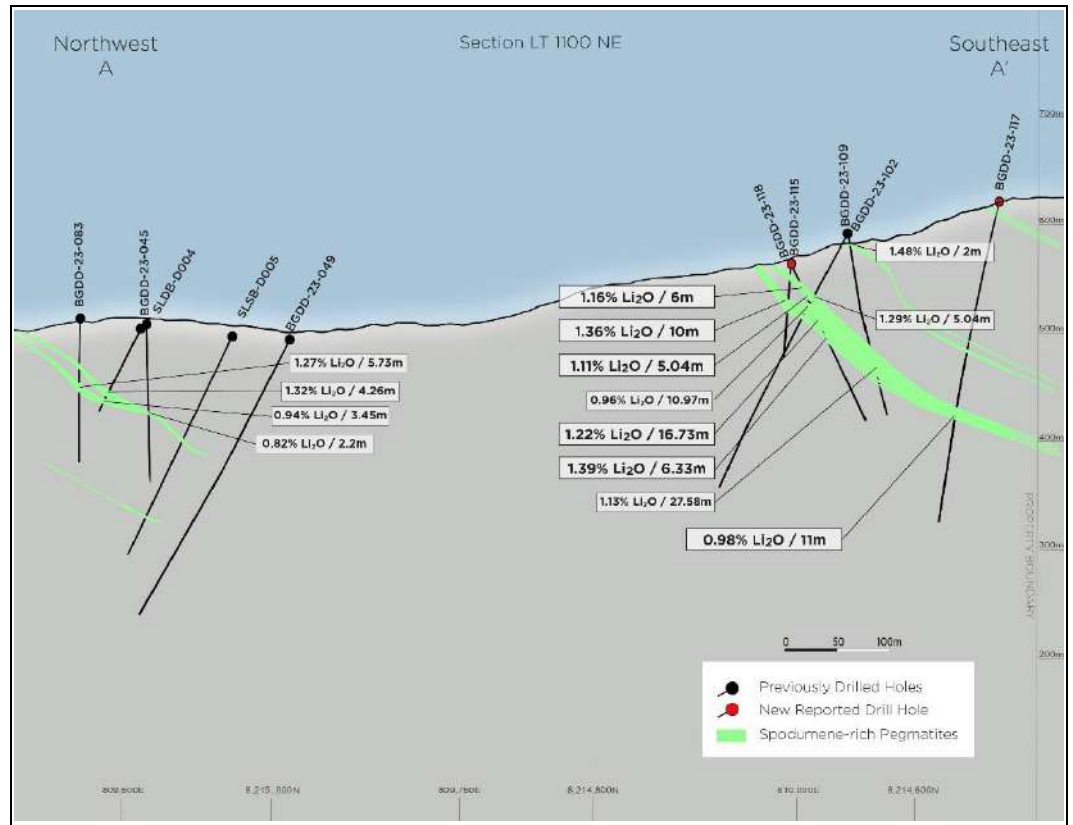

 Company
Models

Exhibit 1: Salinas Project New Drill Intercepts Highlights



Source: Company filings

Exhibit 2: Cross Section LT1100 NE



Source: Company filings

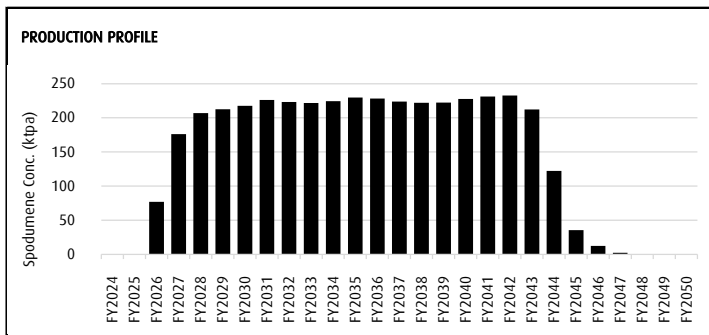
Exhibit 3: Tear Sheet

LITHIUM IONIC				LTH-TSXV		Rating		Outperform	
Greg Jones, Analyst, BMO Capital Markets								As of: 05-Feb-24	
Share Price	CS/share	\$0.85		NAVPS	CS/share	\$4.84	FD ITM Shares	M	144.6
Target Price	CS/share	\$3.00		Price/NAV	Ratio	0.18x	Market Capitalization	C\$M	\$123
Implied Return	%	253%					Fiscal Year End		December

PRICE AND FX ASSUMPTIONS						
December Year End		FY2023E	FY2024E	FY2025E	FY2026E	FY2027E
Spodumene (Realized)	US\$/t	\$1,224	\$1,192	\$1,753	\$1,833	\$1,833
Exchange Rate	CAD:USD	0.74	0.76	0.79	0.78	0.78

SUMMARY STATISTICS						
		FY2023E	FY2024E	FY2025E	FY2026E	FY2027E
Shares O/S (Avg.)	M	118.1	150.6	251.2	339.3	342.4
EPS (Adj.)	CS/share	(\$0.46)	(\$0.14)	(\$0.08)	\$0.13	\$0.42
CFPS	CS/share	(\$0.34)	(\$0.14)	(\$0.06)	\$0.13	\$0.57
FCF PS	CS/share	(\$0.33)	(\$0.15)	(\$0.30)	(\$0.31)	\$0.21

RESERVES & RESOURCES					
		Tonnes	Li2O	Li2O	LCE
Bandeira		kt	%	kt	kt
Measured & Indicated		13,720	1.40%	192	475
Inferred		15,790	1.34%	212	523



NET ASSET VALUE SUMMARY (C\$M)					
		10% Disc. Rate		8% Disc. Rate	
		NPV	Per share	NPV	Per share
		C\$M	C\$/share	C\$M	C\$/share
Bandeira Project		\$1,508	\$4.36	\$1,839	\$5.32
Exploration Credit		\$59	\$0.17	\$59	\$0.17
Net Cash		\$10	\$0.03	\$10	\$0.03
ITM Option Proceeds		\$4	\$0.01	\$4	\$0.01
Future Equity Financing Proceeds		\$162	\$0.47	\$162	\$0.47
Corporate G&A		(\$70)	(\$0.20)	(\$78)	(\$0.23)
Total Corporate Adjustments		\$106	\$0.31	\$98	\$0.28
Net Asset Value		\$1,673	\$4.84	\$1,996	\$5.78
Price Target (0.60x NAV) Rounded			\$3.00		
Current FD ITM Shares	M	144.6			
Shares from Future Equity	M	200.9			
FD ITM Shares	M	345.5			

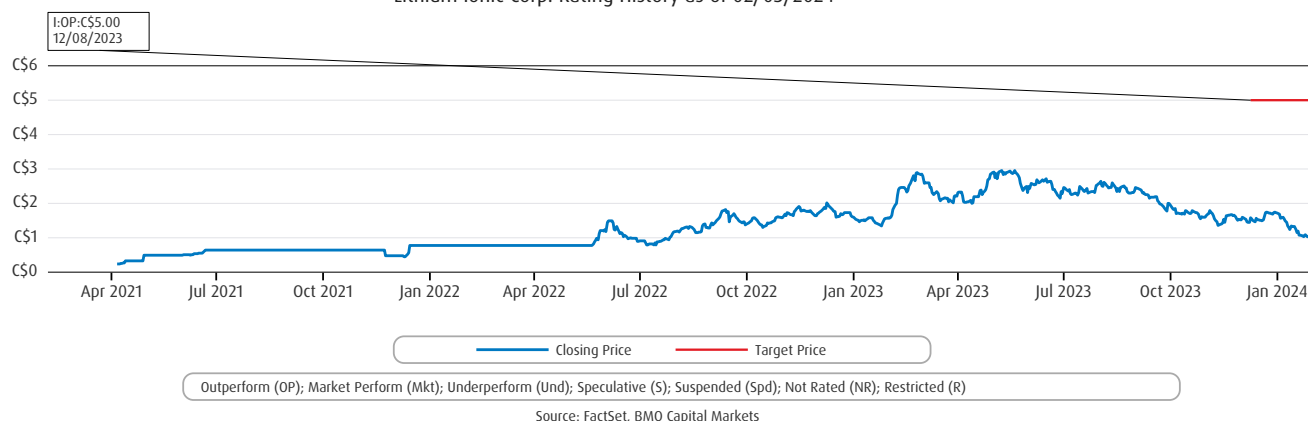
PROFIT & LOSS STATEMENT (C\$M)						
December Year End		FY2023E	FY2024E	FY2025E	FY2026E	FY2027E
Net Revenue		--	--	--	\$180	\$416
Operating Costs		--	--	--	(\$67)	(\$152)
Gross Profit		--	--	--	\$113	\$264
SG&A		(\$7)	(\$5)	(\$5)	(\$5)	(\$5)
Other Expenses		(\$50)	(\$16)	(\$13)	(\$21)	(\$21)
EBITDA		(\$57)	(\$21)	(\$19)	\$87	\$237
Depreciation		(\$1)	--	\$9	(\$35)	(\$101)
EBIT		(\$58)	(\$21)	(\$10)	\$52	\$136
Interest Income (Expense)		\$1	--	(\$13)	(\$21)	(\$21)
Income Taxes		--	--	--	\$14	\$31
Net Income		(\$58)	(\$21)	(\$23)	\$45	\$146

CASH FLOW ANALYSIS (C\$M)						
December Year End		FY2023E	FY2024E	FY2025E	FY2026E	FY2027E
Cash Flows From Operating Activities						
Net Income		(\$58)	(\$21)	(\$23)	\$45	\$146
Non-Cash Items		\$21	--	\$4	\$28	\$60
Changes in Working Capital		(\$7)	--	--	(\$29)	(\$9)
		(\$44)	(\$21)	(\$19)	\$43	\$197
Cash Flows from Investing Activities						
Property, Plant and Equipment		(\$0)	--	(\$57)	(\$147)	(\$127)
Other		\$5	(\$2)	--	--	--
		\$4	(\$2)	(\$57)	(\$147)	(\$127)
Cash Flows from Financing Activities						
Proceeds from Issue of Shares		\$28	\$20	\$142	--	\$4
Proceeds from Borrowings		(\$0)	--	\$213	--	--
		\$28	\$20	\$356	--	\$4
Beginning Cash		\$21	\$10	\$7	\$287	\$182
Net Increase in Cash Held		(\$11)	(\$3)	\$280	(\$104)	\$75
Ending Cash		\$10	\$7	\$287	\$182	\$257

BALANCE SHEET ANALYSIS (C\$M)						
December Year End		FY2023E	FY2024E	FY2025E	FY2026E	FY2027E
Current Assets						
Cash and Equivalents		\$10	\$7	\$287	\$182	\$257
Other		\$1	\$1	\$1	\$41	\$53
Non-Current Assets						
Property, Plant and Equipment		\$1	\$3	\$56	\$175	\$242
Other		\$2	\$2	\$2	\$2	\$2
Current Liabilities						
Payables		--	--	--	\$11	\$14
Borrowings		\$0	\$0	\$0	\$0	\$0
Non-Current Liabilities						
Borrowings		\$0	\$0	\$214	\$214	\$214
Other		--	--	\$0	--	--
Shareholders Equity						
Net Debt (Cash)		(\$10)	(\$7)	(\$73)	\$31	(\$43)

Source: BMO Capital Markets

Lithium Ionic Corp. Rating History as of 02/05/2024



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Methodology and Risks to Target Price/Valuation for Lithium Ionic Corp. (LTH-TSXV)

Methodology: We use a NAV-based methodology to value Lithium Ionic shares consistent with other developers in the mining sector. We apply a 0.60x multiple to our calculated NAV, appropriate in our view for an early-stage development company with a low-capital project in an attractive jurisdiction and balanced by the current market environment.

Risks: (1) The company’s projects are early-stage and its ability to continue growing and improving the confidence of the resource base and further defining the project economics are key to its overall growth story, in our view. (2) The Bandeira PEA assumes the mining of inferred mineral resources. No mineral reserves have been estimated for the project and there is no certainty these inferred resources will have economic viability. (3) Delays in advancing the project through permitting in a timely manner could impact our assumed production start-up and negatively impact our NAV per share estimate. (4) The presence of a river over portion of the Outro Lado deposit requires further study. A river passes over a portion of the Outro Lado deposit and will not allow for open pit mining of this area. Underground mining is contemplated, and additional mine design study is required, which could adversely affect the current mineral resource estimate for this area (3.4 Mt at 1.47% Li2O). (5) Weakness in lithium and spodumene demand and commodity prices could negatively impact share price performance.

Distribution of Ratings (February 05, 2024)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	48.4 %	15.9 %	43.2 %	54.2 %	57.3 %	57.7%
Hold	Market Perform	48.8 %	18.9 %	51.8 %	44.0 %	40.8 %	37.5%
Sell	Underperform	2.6 %	25.0 %	3.7 %	1.6 %	1.4 %	4.8%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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~ As of April 1, 2019.

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(S) = Speculative investment;

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(April 2013 - October 2016)

http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

(January 2010 - April 2013)

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