STIFEL

Lithium Ionic Corp

LTH-TSXV

August 15, 2024

Canada - Metals & Mining

SPECULATIVE BUY

Price C$0.52 (closing 8/14/24)

FLASH NOTE

The Aussies are Coming: PLS Takeout of LRS a Validation of our LTH Thesis

Summary

Impact: Strong positive.Pilbara Minerals (PLS-ASX) has announced intentions to acquire Brazilian located Latin Resources (LRS-ASX) in an-all share transaction for an implied value of $369 million, or A$0.20/share, a 67% premium to LRS's last closing price. The proposed transaction has strong positive implications for Lithium Ionic, whose Salinas project is adjacent to LRS's flagship Colina deposit. On a EV/ tonne contained lithium carbonate equivalent basis, the deal implies a 5x valuation on LTH shares. We view this proposed deal as a strong positive that i) *will serve as a reminder to the intrinsic value in LTH shares* and ii) ***counter cyclical interest in low cost, scalable assets in mining friendly jurisdictions***, representing a potential harbinger of renewed activity in the space as established lithium producers look to acquire attractive assets at counter-cyclical lows. We rate LTH as a Speculative Buy with a target price of C$3.50/share.

Key Points

What's New?

- Pilbara Minerals has offered to acquire Latin Resources (LRS) in an all-share transaction for an implied value of $369 million.

Implications

- **Proposed transaction implies much higher valuation for covered lithium developer Lithium Ionic**. Recall that Latin Resources is an Australia-based lithium developer with assets in Brazil's Aracuai Pegmatite Belt. Latin Resources' closest peer is Lithium Ionic, whose Salinas property borders LRS's flagship deposit near the of Salinas in Minas Gerais, Brazil. Naturally this proposed transaction has strong valuation implications for LTH, implying a much higher value for the company than currently ascribed to by the market.
  - We have previously remarked on the valuation disconnect between Australian and Brazilian spodumene projects, and are therefore not surprised that an established producer such as Pilbara would make a move to acquire quality assets on the cheap.
  - The deal, which will see LRS shareholders receive 0.07 shares of Pilbara for each share they own, implies a take-out price of A$0.20/ share for LRS, a **67% premium to the previous close.**
  - On an EV/tonne of lithium carbonate equivalent (LCE) basis, this proposal values LRS at $152/tonne. This far exceeds Lithium Ionic's current valuation of $26/tonne.
  - **At $150/tonne LCE, the market cap for Lithium Ionic would be $293 million, or C$2.67/share, over 5x the most recent close of C$0.52.**
  - While we are not holding our breath for a re-rate of this magnitude, we nevertheless see this transaction as a reminder of LTH"s underpriced Brazilian assets, and we expect its shares to rally this morning on this news.
- **Validation on our Lithium Ionic investment thesis**. Pilbara's motivation for acquiring LRS likely mirrors what we believe is a strong investment case for LTH, built on several key planks:
  - **Infrastructure**. LTH's deposits are adjacent or proximal to all required roads, power lines, and labour resources. Combined with what will likely be a straightforward processing circuit, we believe this can keep capital intensity on future builds low.
  - **Government support**. Mining-friendly Minas Gerais has made EV-suppply chain development a priority, exemplified by Memorandum of Understandings with lithium developers (including LTH) to streamline licensing and time-to-production. In keeping with this, we anticipate that construction permits for LTH's Bandeira project could come as early as this fall.
  - **Resource Growth**: Lithium deposits in the Aracuai lithium cesium-tantalum Pegmatite District occur in clusters, and companies have the proven ability to grow resources over time through intensive drilling. LTH has already more than doubled their global resource since their initial Mineral Resource Estimate last summer and we believe there is the potential for more given the company's extensive land package.
  - **Strategic location**. As the US government moves to sterilize China-tainted lithium feedstock from their EV supply chain under Foreign Entity of Concern rules, we see added attractiveness for friendly-country assets that can feed the emerging EV supply chain hub being built in the US in a logistical route that mirrors the Australia-to-China route in the Western hemisphere.

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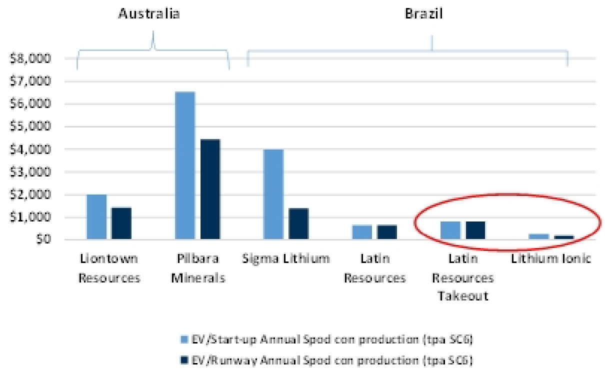
Australia vs. Brazil single-asset spodumene comps

	Liontown Resources	Pilbara Minerals	Sigma Lithium	Latin Resources	Latin Resources Takeout	Lithium Ionic
EV (US$M)	$1,007	$4,437	$1,075	$271	$335	$49
Stage	Construction	Production	Production	PEA	PEA	DFS
Resource tonnage (Mt)	156.0	413.8	108.9	70.3	70.3	60.1
Resource grade (% Li_2O)	1.40%	1.15%	1.41%	1.27%	1.27%	1.28%
Contained LCE (Mt)	5.77	11.87	3.76	2.20	2.20	1.90
Start-up production (kt spod con p.a.)	500e	680e	270e	405	405	178
Runway production (kt spod con p.a.)	700e	1000e	766e	405	405	280*
EV/LCE Resource	**$175**	**$374**	**$286**	**$123**	**$152**	**$26**
EV/Start-up Annual Spod con production (tpa SC6)	$2,015	$6,524	$3,980	$670	$828	$277
EV/Runway Annual Spod con production (tpa SC6)	$1,439	$4,437	$1,403	$670	$828	$176



Source: FactSet, company reports, Stifel research

Brazilian hardrock lithium EV/tonne comps

Company	EV (US$MM)	Global Resource (kt LCE)	EV/tonne
Sigma Lithium	$1,075	3,760	$285.80
Latin Resources*	$335	2,207	$151.96
Lithium Ionic	$49	1,900	$26.00

*Based on Pilbara's takeover offer

Source: FactSet, company reports, Stifel research

Investment Thesis

Resource growth from a prospective land package. *Lithium Ionic's Itinga Project is located within the exceptionally fertile Aracuai lithium-cesium-tantalum Pegmatite District. The company has built up a substantial land package of prospective tenements across the district that will likely lead to further resource growth beyond a maiden resource estimate with continued exploration.*

Supportive government for rapid progress. *LTH is operating near the town of Araçuaí in the Brazilian state of Minas Gerais, where support for the development of lithium projects is strong at the local, state, and federal levels. Streamlined permitting and tax holidays should be available to support the project.*

Infrastructure proximity. *Company lithium deposits are steps from established road networks and any future development scenario will have easy access to established renewable-power infrastructure. Combined with straightforward processing, this will likely mean a low-capital-intensity build as already proven by area peers.*

Strategic location. *Company properties are adjacent to other advanced projects and an established mine and therefore could make for desirable targets in a district ripe for consolidation.*

Target Price Methodology/Risks

Our target price, via a 0.75x NAV multiple, is C$3.50/sh.

Commodity Price Risk: Any material decline in lithium product pricing from our estimates would negatively impact the profitability of the projects and may also render them uneconomical.

Exploration/Resource Risk: Any issues with resource delineation or definition could adversely affect the profitability of the project.

Financing Risk: The execution of the Itinga Project will be dependent on LTH's ability to fully fund the project and advance it to a positive final investment decision.

Execution Risk: There is the possibility that the projects will not be able to advance into the mine phase.

Construction Risks: A project during construction is subject to a number of engineering risks that might create unforeseen costs and schedule overruns, thus impacting economics.

Company-Specific Risk: We make several assumptions in our valuation, including estimates on mine life, throughput, metal recoveries, and unit costs. Such assumptions are subject to change as more project-specific information is available, which could adversely affect valuations.

Jurisdictional Risk: Every asset is subject to varying types of risks depending on its location. Such risks include government policies, taxation, import/export regulation, title rights, environmental regulations, complex permitting procedures and social challenges.

Company Description

Lithium Ionic is a lithium development company with properties covering 14,183ha located in the prolific Araçuaí province in Minas Gerais State, Brazil. The Project Area is proximal to infrastructure, including highways, hydroelectrical grid power, water, and nearby commercial ports. Its Itinga Project neighbours CBL's Cachoeira lithium mine and Sigma Lithium Corp.'s construction-stage Grota do Cirilo project.

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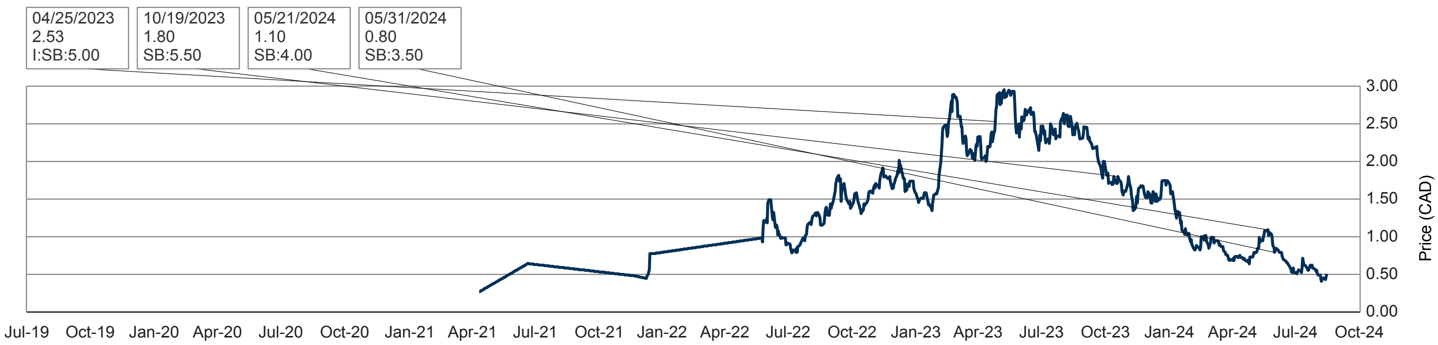
Lithium Ionic Corp (LTH CN) as of August 14, 2024 (in CAD)



*Represents the value(s) that changed.
Buy=B; Speculative Buy=SB; Hold=H; Sell=S; Discontinued=D; Suspended=SU; Initiation=I

For a price chart with our ratings and target price changes for LTH CN go to http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=LTH CN

Stifel or an affiliate expects to receive or intends to seek compensation for investment banking services from Lithium Ionic Corp in the next 3 months.

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Buy - We expect a total return of greater than 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

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Hold - We expect a total return between -5% and 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

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[1] This rating is only utilised by Stifel Canada.

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