

November 27, 2024

Canada - Metals &amp; Mining

**SPECULATIVE BUY**

Price C\$0.93 (11-26-24 close)

**FLASH NOTE**

## Strategic Project, Strategic Financing

**Summary**

**Impact: Strong Positive.** Lithium Ionic announced the receipt of a Letter of Intent from the Import-Export Development Bank in the United States (EXIM) to provide \$266 million in non-dilutive debt financing for the company's Bandeira lithium project in Brazil. We are positive on this news that provides 100% of the estimated initial capital for Bandeira. Indicative of US government support for the project and Brazil as a friendly-country critical minerals source, this news has the ability to substantially financially de-risk the project. With environmental approvals and construction permitting expected soon, we highlight LTH as a near shovel-ready project increasingly attractive from a jurisdiction/geological perspective, trading at a fraction of recent transaction comps.

**Key Points****News**

- LTH has received a Letter of Intent from the Import Export Bank of the United States (EXIM) to provide US\$266 million to fund LTH's Bandeira project.
- The proposed funding takes the form of debt financing, with a maximum repayment term of 15 years.

**Implications**

- **Strong Positive.** We view this news as a strong positive and expect the market reaction this morning to reflect this. Key positives of the announcement:
  - **Up to 100% of Bandeira CAPEX:** This represents up to 100% of initial capital for Bandeira. Importantly, the potential funding is to take the form of non-dilutive debt financing. Also positive is that the financing does not include any offtake agreement - leaving Bandeira unencumbered to pursue offtake agreements and leaves Salinas untouched, maintaining its attractiveness as a potential sale for additional funding optionality.
  - We would note while we view this announcement as the signing of a formal relationship, conditions precedent to satisfy a larger portion of the up to US\$266MM include over 51% of procured cost from the US, or up to 100% of domestic offtake - both of which would make the project more strategic.
  - **Only scalable, project with line of sight to fully funded/permitted in Brazil's sought after Lithium Valley:** With the impending receipt of the LAC (construction license), LTH is on the cusp of being the only *scalable* fully-funded, shovel-ready development lithium project in Brazil.
  - **Rio Tinto + Arcadium deal intimates supply chain bifurcation, with Brazil a logical hunting ground:** The letter is indicative of our supply chain bifurcation thesis, and shows US government motivation to develop lithium supply chains ex-China, with Brazil in their sights as a friendly-country jurisdiction.
  - **Brazil priority investment destination.** We continue to highlight Brazil as a jurisdiction *likely to attract investment and M&A interest*:
    - **Mining friendly.** Brazil in general, and Minas Gerais in particular, represents a mining-friendly jurisdiction with proven support for fast-tracking lithium projects, viewed as a strategic priority.
    - **Geologically fertile.** Geologically - when in the correct proximity to source granites (of which LTH has 17,000ha) the Eastern Brazilian Pegmatite Province (EBPP) has increased lithium fertility - intimating a ability to continue growing from LTH's beachhead at Bandiera - important for scalability tension.
    - **Access to Infrastructure.** Lithium resources in the EBPP, including LTH's, are typically proximal to power, water, and population centers, lessening the need for large, up-front infrastructure investments.
    - **New supply chain link.** Today's news is demonstrable proof of [our view that Brazil could emerge as a key link in the emerging US-based EV/Energy Storage supply chain](#). Lithium resources proximal to tidewater could be logistically linked to US refineries in a Western mirror of the established Australia-China mine/refine complex - and RIO's QC downstream aluminum refineries provide precedent for a similar operating model - leveraging Brazil's low cost base with QC hydro, a win win for full cycle profitability for a major.

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Completed: 27 November 2024 09:43EST  
Disseminated: 27 November 2024 09:43EST

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- **Given this, we see increased scarcity value for LTH's Bandeira project**, with today's announcement increasing its attractiveness from an M&A standpoint - all the more opportune given recent activity and the potential for more from a range of suitors - downstream battery makers, mining majors like Rio Tinto continuing their lithium build-out, etc.

#### Valuation

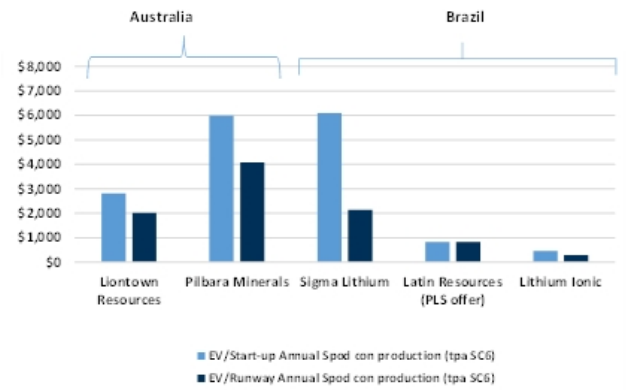
- LTH trades at \$35/t on an EV/LCE basis, vs \$136/t for average M&A comps in 2024 and \$151/tonne for Rio Tinto's take-out valuation for next-door neighbour Latin Resources. **At a similar valuation, LTH would be worth \$2.54/share; while LTH remains smaller, we think this valuation gap has strong potential to narrow thanks to financing and permitting milestones being ticked off, leaving a low cost, scalable beachhead project on sale.**

### Lithium valuation comps

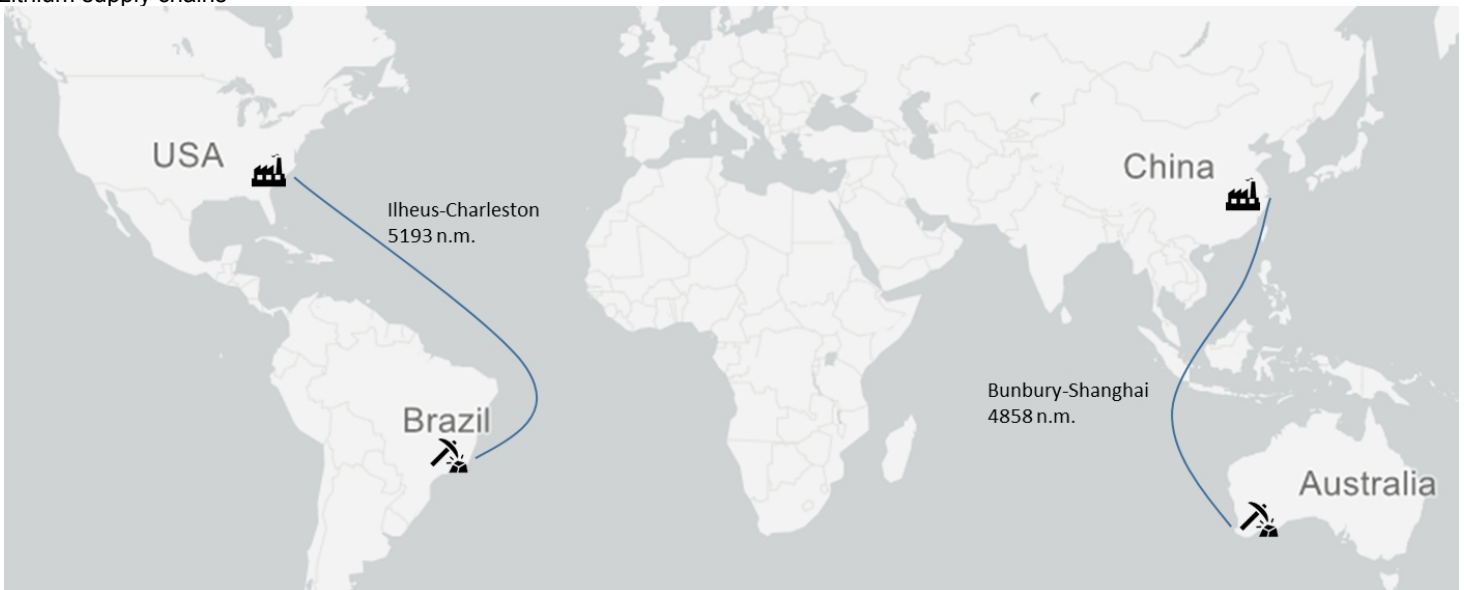
	Liontown Resources	Pilbara Minerals	Sigma Lithium	Latin Resources (PLS offer)	Lithium Ionic
EV (US\$M)	\$1,408	\$4,076	\$1,644	\$336	\$82
Stage	Construction	Production	Production	PEA	DFS
Resource tonnage (Mt)	156.0	413.8	108.9	70.3	60.1
Resource grade (% Li <sub>2</sub> O)	1.40%	1.15%	1.41%	1.27%	1.28%
Contained LCE (Mt)	5.77	11.87	3.76	2.20	1.90
Start-up production (kt spod con p.a.)	500e	680e	270e	405	178
Runway production (kt spod con p.a.)	700e	1000e	766e	405	280*
EV/LCE Resource	\$244	\$343	\$437	\$151	\$43
EV/Start-up Annual Spod con production (tpa SC6)	\$2,816	\$5,994	\$6,090	\$829	\$458
EV/Runway Annual Spod con production (tpa SC6)	\$2,011	\$4,076	\$2,146	\$829	\$291

\*Stifel estimate

Source: FactSet, Stifel research



### Lithium supply chains



Source: Stifel research

**Investment Thesis**

**Resource growth from a prospective land package.** Lithium Ionic's Itinga Project is located within the exceptionally fertile Aracuaí 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 Aracuaí 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 Aracuaí 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 November 26, 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](http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=LTH_CN)

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<sup>1</sup> This rating is only utilised by Stifel Canada.

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