

2 July 2024

Lindian Resources Limited (LIN) BUY Share Price: A\$0.16

Low capex the standout in outstanding Study Target Price: A\$0.72

LIN's Feasibility Study has delivered a low capex (US\$40m), low cost (US\$3.70/kg AISC) pathway to commence near-term production of monazite concentrate at its globally significant Kangankunde Rare Earths Project in Malawi (Figure 1). With key development approvals in place and strong government and local community support, LIN is busy advancing multiple funding discussions with construction groups, trading companies, and strategic investors; funding package targeted for Sep. Q'24. While the current soft REO price environment is not helping sector sentiment (Figure 2), LIN's outstanding value proposition - US\$40m capex for NdPr production equiv. to 25% of output from MP Materials' (NYSE:MP, mcap US\$2.1bn) - will be increasingly recognised. BUY, Target Price A\$0.72/sh (prev. A\$0.69/sh).

Key Study outcomes (Figure 3)

- **Physicals:** 20.2Mt mine inventory (ore processed) at 450ktpa over a 45 year mine life. Average annual production of 8,300t TREO at 3% TREO head grade and 60% recovery; 19.5% (1,613tpa) high-value NdPr.
- **Unit revenue and costs:** LOM benchmark NdPr price of US\$109/kg, 65% payability and 19.5% NdPr in TREO for average realised price of US\$13.80/kg; AISC US\$3.71/kg TREO in concentrate (= US\$68/t ore).
- **Capex:** US\$40m comprised of US\$30m direct costs, US\$5.5m indirect costs, US\$4.5m contingency.
- **Financial outcomes:** NPV₈ (post tax) of A\$831m, IRR of 80%, and an average annual EBITDA of A\$125m.
- **Pre-production capex of US\$40m (A\$60m)** for 450ktpa rare earth concentrate operation is a standout outcome. Capex intensity of US\$89/t compares to US\$300/t for HAS' 1.1Mtpa Yangibana Project (WA) and US\$400/t for PEK's 0.8Mtpa Ngualla Project (Tanzania)

Positive impact (+5%) on our valuation (Figure 3)

- Capex was in line with our expectations. Positive changes: (i) increased mine inventory to 20.5Mt (46yr LOM) vs prev. 13.4Mt (31-year LOM), (ii) increased mill throughput to 450ktpa (prev. 440ktpa), (iii) increased % NdPr in TREO to 19.5% (prev. 18.5%). Negative changes: (i) reduced recovery to 60% (prev. 70%) and, (ii) increased AISC to US\$3.71/kg (prev. US\$3.00/kg).
- Our NPV₁₂ valuation for a 20.5Mt mine inventory is predicated on a LOM NdPr price of US\$121/kg. At current share price levels, the market is discounting a constant NdPr price closer to US\$64/kg (Figure 4).

Key Dates Ahead

- Sep. Q'24 – Achieve funding confirmation
- Dec. Q'24 – Commence plant construction.
- Dec. Q'25 – Plant commissioning.

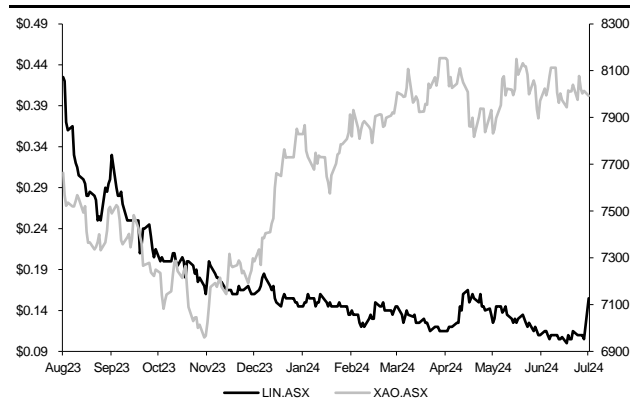
Company Data

Shares – ordinary (M)	1152.9
Dilution (M)	106.4
Total (fully diluted) (M)	1259
Market capitalisation (\$M)	179
12 month low/high (\$)	0.1/ 0.45
Average monthly turnover (\$M)	5.7
GICS Industry	Metals & Mining

Financial Summary (fully diluted/normalised)

Year End June	FY24F	FY25F	FY26F	FY27F	FY28F
Revenue (\$M)	0.0	0.0	67.7	150.0	159.5
Costs (\$M)	-2.0	-2.0	-33.0	-45.7	-45.5
EBITDA (\$M)	-2.0	-2.0	34.7	104.2	114.0
NPAT (\$M)	-3.9	-2.2	16.6	64.2	70.8
EPS (¢ps)	-0.3	-0.2	1.3	5.1	5.6
EPS growth (%)	na	na	>100%	>100%	10%
PER (x)	na	na	11.8	3.0	2.8
Op. Cashflow (\$M)	-17.0	-18.2	20.1	67.7	82.6
OCFPS (¢ps)	-1.3	-1.4	1.6	5.4	6.6
POCFPS (x)	na	na	9.7	2.9	2.4
Enterprise Value (\$M)	165	247	238	180	104
EV / EBITDA (x)	-ve	-ve	6.9	1.7	0.9
Payout ratio (%)	na	na	na	na	na
Dividends (¢ps)	0	0	0	0	0
Yield (%)	na	na	na	na	na
Franking (%)	na	na	na	na	na

LIN – performance over one year



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Analysis

Lindian Resources Limited (LIN)

Year End June

Share price (A\$)	0.16
Issued Shares (m)	1,153
Market Cap (A\$m)	179
Options/Rights (m)	106.4 (incl. 84.1m options @ A\$0.24 average for A\$20.5m)
Dilution (m)	0
Fully Diluted no. of Shares (m)	1,259

P&L Statement (A\$m)	FY23A	FY24F	FY25F	FY26F	FY27F	FY28F
Revenue	0.0	0.0	0.0	68	150	160
Mining/Hauling	0.0	0.0	0.0	(4)	(9)	(8)
Processing	0.0	0.0	0.0	(12)	(11)	(11)
Other + Corporate/Exploration	(7.7)	(2.0)	(2.0)	(17)	(26)	(26)
EBITDA	(7.7)	(2.0)	(2.0)	35	104	114
Depreciation & Amortisation	(0.1)	(0.5)	(0.5)	(5)	(7.5)	(10)
Operating profit	(7.8)	(2.5)	(2.5)	30	97	104
NOI	0.0	(1.6)	0.0	0	0	0
EBIT	(7.8)	(4.1)	(2.5)	30	97	104
Interest income	0.0	0.2	0.3	0.2	0	1
Interest expense	0.0	0.0	0.0	(6.2)	(5)	(4)
Tax expense	0.0	0.0	0.0	(7)	(28)	(30)
Reported NPAT	(7.8)	(3.9)	(2.2)	17	64	71
EPS Reported (A\$)	(0.7)	(0.3)	(0.2)	1.3	5.1	5.6
DPS - Declared (A\$)	0.00	0.00	0.00	0.00	0.00	0.00
Avg. no. of fully-diluted shares (m)	1,060	1,197	1,259	1,259	1,259	1,259
YE no. of fully-diluted shares (m)	1,154	1,259	1,259	1,259	1,259	1,259

Cash Flow Statement (A\$m)	FY23A	FY24F	FY25F	FY26F	FY27F	FY28F
EBITDA	(8)	(2)	(2)	35	104	114
Investment in working capital	0	(15)	(16)	(7)	(9)	(1)
Tax expense	0	0	0	(7)	(28)	(30)
Operating Cash Flow	(8)	(17)	(18)	20	68	83
Capex	(1)	0	(60)	(2.0)	(2.0)	(2.0)
Exploration	(21)	(10)	(5)	(2.5)	(2.5)	(2.5)
Investing Cash Flow	(22)	(10)	(65)	(4.5)	(4.5)	(4.5)
Net interest received / (paid)	0.0	0.2	0.3	(6.0)	(5.1)	(2.8)
Debt drawdown / (repayment)*	(0)	0	80	(5)	(15)	(20)
Dividends paid	0	0	0	0	0	0
Equity raised	34	35	0	0	0	0
Financing Cash Flow	34	35	80	(11)	(20)	(23)
Non-operating & Other	1.4	(1.6)	0.0	0.0	0.0	0.0
Inc/(Dec) in Cash	5	7	(3)	5	43	55

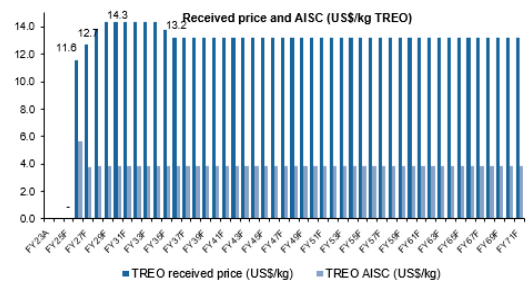
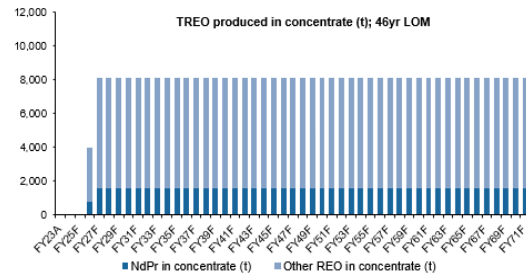
Balance Sheet (A\$m)	FY23A	FY24F	FY25F	FY26F	FY27F	FY28F
Cash & Equivalents	7.6	14	11	16	59	114
Receivables	0	0	0	7	15	16
Inventories	0	0	0	7	16	18
Other Current Assets	0	0	0	0	0	0
PPE and Exploration & Development	57	66	131	130	127	122
Deferred tax asset	0	0	0	0	0	0
Other Non Current Assets	0	0	0	0	0	0
Total Assets	64	80	142	160	218	269
Payables & other current Liabilities	31	16	0	7	15	16
Short Term Debt	0	0	80	75	60	40
Long Term Debt	0	0	0	0	0	0
Other Non Current Liabilities	0	0	0	0	0	0
Total Liabilities	31	16	80	82	75	56
Equity	33	64	62	78	143	213
Total Liabilities and Equity	64	80	142	160	218	269

Ratios	FY23A	FY24F	FY25F	FY26F	FY27F	FY28F
PE multiple (X)	na	na	na	11.8	3.0	2.8
Debt/Equity	0%	0%	129%	96%	42%	19%
Net Debt/Equity	cash	cash	111%	75%	1%	cash
ROE (%)	-24%	-6%	-4%	21%	45%	33%

Received NdPr price calculation	FY23A	FY24F	FY25F	FY26F	FY27F	FY28F
NdPr Ref. Price (China) (US\$/kg)	-	63	83	105	115	125
NdPr price less 13% China VAT (US\$/kg)	-	54	72	91	100	109
Payability factor (%)	-	na	65%	65%	65%	65%
Kangandunde NdPr as % TREO (%)	-	na	19.5%	19.5%	19.5%	19.5%
Effective received price, US\$/kg TREO	-	na	9.1	11.6	12.7	13.8
Received price as % NdPr Ref. Price	-	na	11.0%	11.0%	11.0%	11.0%

TREO production	FY23A	FY24F	FY25F	FY26F	FY27F	FY28F
Ore processed (kt)	-	-	-	220	450	450
TREO grade (% REO)	-	-	-	3.0%	3.0%	3.0%
Recovery (%)	-	-	-	60%	60%	60%
TREO in concentrate (t)	-	-	-	3,960	8,100	8,100
% Nd/Pr	-	-	-	19.5%	19.5%	19.5%
NdPr in concentrate (t)	-	-	-	772	1,580	1,580

TREO margin	FY23A	FY24F	FY25F	FY26F	FY27F	FY28F
Average received price (US\$/kg)	-	-	-	11.58	12.68	13.78
AISC (US\$/kg)	-	-	-	5.65	3.78	3.84
Margin (US\$/kg)	-	-	-	5.93	8.90	9.94
Margin (%)	-	-	-	51%	70%	72%



Valuation	(A\$m)	(A\$/sh)
Kangankunde f'cast mine inventory NPV12 (20.5Mt)	605	0.48
Resource outside of inventory (240.5Mt)	240	0.19
Kangankunde Project (total) (261Mt TREO)	845	0.67
Kangankunde exploration upside (nominal)	50	0.04
Bauxite Projects - Guinea (nominal)	40	0.03
Bauxite Projects - Tanzania (nominal)	0	0.00
Corporate costs	(27)	(0.02)
Enterprise value	908	0.72
Net cash (debt) FY24F	14	0.01
Equity value	922	0.72

* We assume offtakers and project partners will provide LIN with A\$80m in project debt funding / working capital facility. LIN's Maiden Offtake Agreement partner Gerald Metals (for min. 40% of product) may elect a US\$10m Run-of-Mine finance facility to be made available to LIN. We believe any other offtake contract(s) are likely to contain similar funding options. In addition, LIN is currently negotiating with a range of rare earth industry participants including trading houses, EPC contractors and mining equipment manufacturers on a number of potential funding options.

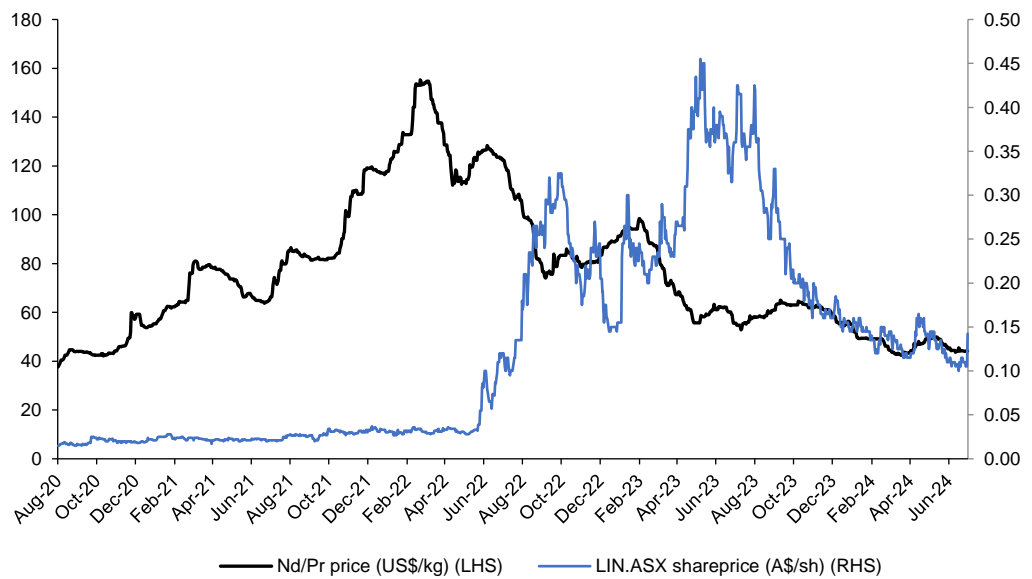
Source: Petra Capital

Figure 1: Location map - LIN's Kangankunde Project located 75km north of Blantyre in Malawi



Source: Sovereign Metals (map source), Petra Capital

Figure 2: NdPr Price (US\$/kg) vs LIN's share price (August 2020-present)



Source: Bloomberg, compiled by Petra Capital

Summary of changes

Changes to our operational forecasts and valuation include:

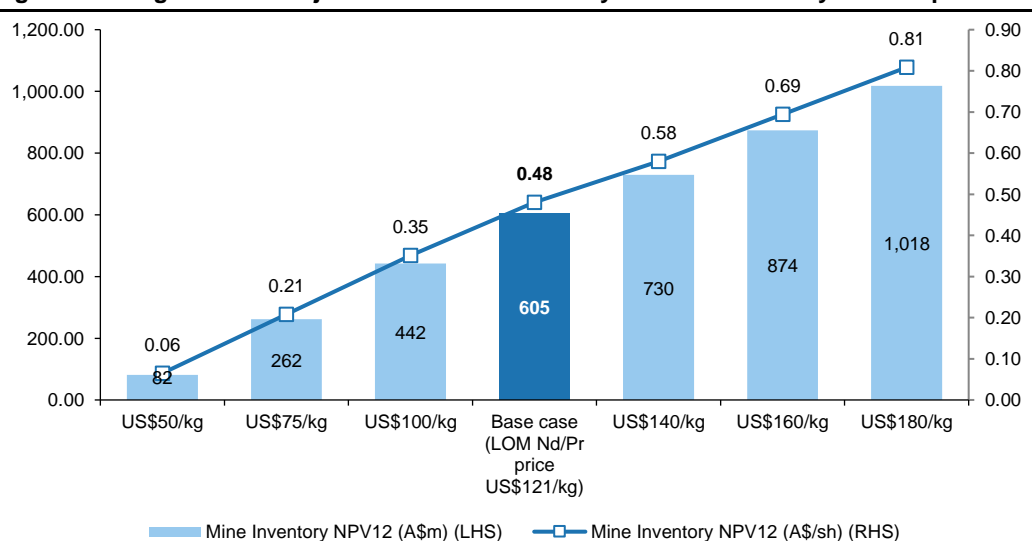
- Decrease in TREO production in FY26F on revised lower recovery with revenue largely offset by an increase in received prices (higher % of NdPr in TREO and higher payability).
- Increase in AISC in line with the Study's LOM outcome of US\$3.71/kg.
- Changes guided by July 2024 Feasibility Study. Net impact of changes to forecast mine inventory, annual plant throughput, recovery, concentrate grade, payability, % NdPr in TREO concentrate, and opex is positive; valuation and target price increased by 5%.

Figure 3: Summary of Changes (FY24F-FY26F)

		FY24F			FY25F			FY26F		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	A\$m	0	0	na	0	0	na	68	69	-2%
EBITDA	A\$m	-2	-2	0%	-2.0	-2	na	35	37	-7%
EBIT	A\$m	-4	-4	0%	-3	-3	na	30	32	-8%
NPAT	A\$m	-4	-4	0%	-2	-2	na	17	18	-10%
EPS	A\$c	-0.3	-0.3	0%	-0.2	-0.2	na	1.3	1.5	-10%
DPS declared	A\$c	0.0	0.0	na	0.0	0.0	na	0.0	0.0	na
Equity value	A\$m	922	878	5%						
Price target	A\$/sh	0.72	0.69	5%						
Operations										
Ore processed	kt	na	na	na	-	-	na	220	220	0%
TREO in concentrate	tonnes	na	na	na	-	-	na	3,960	4,620	-14%
NdPr reference price (China)	US\$/kg	63	63	0%	83	83	0%	105	105	0%
TREO received price	US\$/kg	na	na	na	na	na	na	11.6	10.1	14%
AISC	US\$/kg	na	na	na	na	na	na	5.65	4.66	21%

Source: Petra Capital forecasts

Figure 4: Kangankunde Project 20.5Mt mine inventory – NPV₁₂ sensitivity to NdPr price



Source: Petra Capital forecasts



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