

Equity Research

AVZ Minerals (AVZ)

Long life, world class lithium project

AVZ Minerals (AVZ) is well advanced in the development of the Manono Lithium Project in the DRC, which contains the largest spodumene resource globally with 400Mt @ 1.65% Li₂O in situ. Binding offtakes have been signed for +80% of the planned saleable spodumene concentrate (SC6) output. The deposit is world class and will be a long life, major player in the lithium battery supply chain.

Long-life, world class lithium project

AVZ released its DFS in April 2020, which demonstrated a 21-year LOM, producing 547kt/yr SC6, 47kt/yr primary lithium sulphate (PLS) and tin concentrates. The company plans to refurbish a hydroelectric power plant (HEPP) at an existing site 87km from Manono which would potentially enable company production to reach near zero carbon emissions. Two preferred logistics routes have been studied, both using a mixture of road, rail and there is a major river crossing that uses a ferry. Key bridges and certain roads require upgrades which has been accounted for in pre-production capital estimates, which total US\$545M.

Lithium and tin offtakes in place

Ganfeng, Chengxin and Yibin Tianyi have signed binding offtakes for circa 80% of SC6 output. A subsidiary of the Noble Group has also signed for 600t of tin concentrate per annum. The pricing for lithium compounds has risen sharply since Dec 2020 as has the global tin price. Auto and battery manufacturers have stated impressive expansion plans for EV and battery production. Roskill is forecasting a 61% growth in lithium hydroxide demand in 2021. Spodumene producers such as AVZ are best placed to meet this growth.

Our forecasts and company valuation

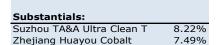
Pre-production capital is to be financed with 70:30 debt:equity, with debt to be potentially sourced from DFIs in Africa. We anticipate first SC6 production in September 2023. AISC is forecasted to average US\$380/t and we have used a LT SC6 price of US\$710/t. EBITDA and FCF averages A\$544M and A\$383M over LOM. Income tax is to be incurred as of FY24. The project has potential upside in the form of increased ownership in the project (from 60% to 75% and potentially beyond), tax reductions, exploration upside and the inclusion of shallow pit floor mineralisation (from the "wedge") into the mine plan. We initiate on AVZ with a BUY recommendation and target price of A\$0.25ps (33% upside on the previous close).

If you would like to discuss the full report, please contact us directly using the details below.

Mining		
12-month rating Target Price (A\$ps) Share Price (A\$ps) Upside	BUY 0.25 0.19 33%	
BBG: AVZ AU		
Trading data & key metrics		
52-week range	0.051 - 0.235	
Market Can:	535	

52-week range	0.051 - 0.235
Market Cap:	535
Shares on issue (m):	2,890
Avg daily volume (k):	14,259
Avg. daily volume -\$m	1.72

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