

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 hydro-electric 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	BUY
Target Price (A\$ps)	0.25
Share Price (A\$ps)	0.19
Upside	33%

BBG: AVZ AU

Trading data & key metrics

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

Directors:

John Clarke	CHAIR
Nigel Ferguson	MD
Graeme Johnston	TECH DIR
Rhett Brans	NED
Peter Huljich	NED

Substantials:

Suzhou TA&A Ultra Clean T	8.22%
Zhejiang Huayou Cobalt	7.49%



Analyst: Andrew White
 e: andrew@curranco.com.au
 t: 02 8188 9499
 m: +61 468 348 819
 Sales: Kevin Curran
 e: kevin@curranco.com.au
 t: 02 8188 9494
 m: +61 415 201 002

PHONE

+61 2 8188 9494

EMAIL

andrew@curranco.com.au

LOCATION

3 Spring St, Sydney, NSW

Information Disclosure

Each research analyst of this material certifies that the views expressed in this research material accurately reflect the analyst's personal views about the subject securities and listed corporations. None of the listed corporations reviewed or any third party has provided or agreed to provide any compensation or other benefits in connection with this material to any of the analyst(s).

General Disclosure and Disclaimer

This research has been prepared by Curran & Co Pty Limited (ABN 40 604 395 226) ("CCPL") for the use of the clients of CCPL and other related bodies corporate (the "Curran & Co Group") and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient, you must not use or disclose the information in this report in any way. CCPL is a holder of an Australian Financial Services License No. 475078.

Nothing in this report should be construed as personal financial product advice for the purposes of Section 766B of the Corporations Act 2001 (Cth). This report does not consider any of your objectives, financial situation or needs. The report may contain general financial product advice and you should therefore consider the appropriateness of the advice having regard to your situation. We recommend you obtain financial, legal and taxation advice before making any financial investment decision.

This research is based on information obtained from sources believed to be reliable and CCPL has made every effort to ensure the information in this report is accurate, but we do not make any representation or warranty that it is accurate, reliable, complete or up to date. The Curran & Co Group accepts no obligation to correct or update the information or the opinions in it. Opinions expressed are subject to change without notice and accurately reflect the analyst(s)' personal views at the time of writing. No member of the Curran & Co Group or its respective employees, agents or consultants accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research.

Nothing in this research shall be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from engaging in any transaction. The Curran & Co Group and/or its associates, including CCPL, officers or employees may have interests in the financial products or a relationship with the issuer of the financial products referred to in this report by acting in various roles including as investment banker, underwriter or dealer, holder of principal positions, broker, director or adviser. Further, they may buy or sell those securities as principal or agent, and as such may affect transactions which are not consistent with the recommendations (if any) in this research. The Curran & Co Group and/or its associates, including CCPL, may receive fees, brokerage or commissions for acting in those capacities and the reader should assume that this is the case.

There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment.

The analyst(s) principally responsible for the preparation of this research may receive compensation based on CCPL's overall revenues.

Copyright

© 2018. All rights reserved. No part of this document may be reproduced or distributed in any manner without the written permission of Curran & Co Pty Limited. Curran & Co Pty Limited specifically prohibits the re-distribution of this document, via the internet or otherwise, and accepts no liability whatsoever for the actions of third parties in this respect.