

Arizona Lithium Limited

DLE Lithium from Saskatchewan

April 2024

Recommendation: BUY

- **Commercial Lithium Carbonate production by 2025**
- **Solid economics, with low costs, and excellent infrastructure**
- **Quick, scalable supply to feed growing North American demand**

ASX: AZL

Share Price: \$ 0.027

Target Price: \$0.06

M/Cap.: \$104M

Valuation: \$0.06/share

Valuation: \$616M

Shares/options: 3,842M

Monthly T/over: \$ 3.8M



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Petra Capital Pty Ltd

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Figure 1: Top 20 Shareholders (Sep 2023)

	Name	Number of Shares (m)	%
1	CITICORP NOMINEES PTY LIMITED	97.6	2.5%
2	MR DANNY ALLEN PAVLOVICH	83.0	2.2%
3	YALLINGUP INVEST PTY LTD	51.9	1.4%
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	48.8	1.3%
5	MR LEENDERT HOEKSEMA	48.0	1.2%
6	BNP PARIBAS NOMINEES PTY LTD	47.3	1.2%
7	CORAL BROOK PTY LTD	44.3	1.2%
8	SUPERHERO SECURITIES LIMITED	31.4	0.8%
9	MAVERICK AG LTD	26.3	0.7%
10	HAWKSBURN CAPITAL PTE LTD	22.7	0.6%
11	<SPENCER SF A/C>	21.6	0.6%
12	JAYVEE AND CO	19.4	0.5%
13	MR AVDO TABAKOVIC	19.2	0.5%
14	BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	17.4	0.5%
15	PARANOID ENTERPRISES PTY LTD	16.9	0.4%
16	<TRIVEST CAPITAL A/C>	16.6	0.4%
17	CITYLIGHT ASSET PTY LTD	16.5	0.4%
18	101247092 SASKATCHEWAN LTD	16.5	0.4%
19	SPICEME CAPITAL PTY LTD	15.0	0.4%
20	DANIEL KENNETH GEREN	14.5	0.4%
	Total	674.9	17.6%

April 2024

Arizona Lithium Ltd (AZL)

BUY Share Price: **A\$0.02**

DLE Lithium from Saskatchewan

Target Price: **A\$0.06**

AZL is quickly delivering a low risk and unique pathway to supplying 6ktpa of lithium carbonate into the North American market beginning from 2025. Successful execution could lead to higher production outcomes to leverage its large brine resource of 6.3Mt LCE hosted within an established oil field. The government of Saskatchewan and local community are familiar with the oil industry, which is working in AZL’s favour given three lithium production wells have already been permitted and a pilot plant completed in Nov-23. Lithium prices are recovering and North America is extremely short domestic supplies that can qualify for the full IRA subsidies. AZL’s Prairie Project is likely to become an important near-term and low-cost supplier. We initiate coverage with a BUY and PT of A\$0.06/sh (fully diluted).

Developing the Prairie Lithium project quickly

- AZL is quickly advancing its 100%-owned Prairie Lithium Project in Saskatchewan, with commercial production planned for mid-2025, having already secured approval for three production wells (and two more to come). It is using existing Direct Lithium Extraction (DLE) from EnergySource Minerals and a modular approach will provide scalability and a lower environmental footprint.

Solid economics even at an initial small scale of 6ktpa

- Based on the Dec-23 PFS, Prairie will be a 6ktpa Lithium Carbonate operation for total Capex of A\$485m. At our US\$20,000/t long term Lithium Carbonate price (minus a US\$2,600/t deduction for technical grade), Prairie generates A\$103m/pa EBITDA, an IRR of 26% and significant valuation upside.
- On our modelling, AZL is expected to have low cash costs of US\$3,084/t and AISC of US\$5,000/t LCE.
- There is also significant leverage, with each additional 2ktpa LCE module adding A\$80m in NPV and every 10% increase in pricing adding c.A\$150m in valuation.

Saskatchewan is mining/extraction friendly

- Saskatchewan is mining-friendly, with mining & energy contributing 17% of provincial GDP, the largest of any sector. It is a major exporter of potash, uranium, oil & gas.
- At Prairie, the population is sparse and there is abundant oil infrastructure which will lower start-up cost and risks.

North America needs a lot more lithium

- There are plans for 1,000GWh of battery plants in North America, which will require approx. 850ktpa LCE but the production pipeline is estimated at only 100kta LCE.

Key Dates Ahead

- Jun.Q’24 – ongoing pilot production of Lithium Carbonate
- Late 2025 – first commercial production

Company Data

Shares – ordinary (M)	3,842
Dilution (M)	1,291
Total (fully diluted) (M)	5,133
Market capitalisation (\$M)	104
12 month low/high (\$)	0.01/ 0.06
Average monthly turnover (\$M)	3.8
GICS Industry	Metals & Mining

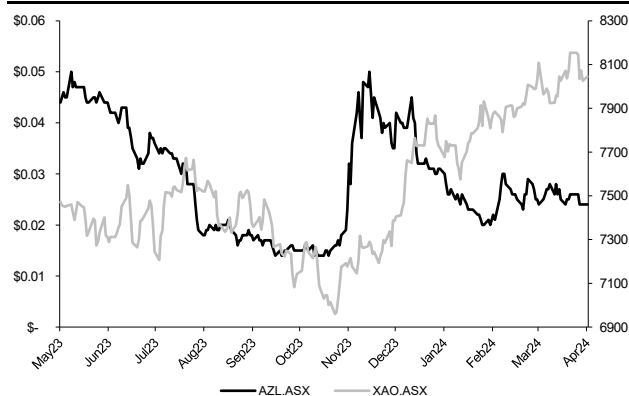
Financial Summary (fully diluted/normalised)

Year end June	2025F	2026F	2027F	2028F	2029F
Revenue (\$M)	0	36	81	135	150
Costs (\$M)	-12	-18	-26	-52	-55
EBITDA (\$M)	-11	18	55	83	95
NPAT (\$M)	-11	6	10	25	33
EPS (¢ps)	-0.1	0.1	0.1	0.2	0.3
PER (x)	-23.8	43.8	26.4	11.0	8.4
Op. Cashflow (\$M)	-10	17	30	54	65
OCFPS (¢ps)	-0.1	0.2	0.3	0.5	0.6
POCFPS (x)	-27.4	16.1	9.0	5.1	4.2
Enterprise Value(\$M)	133	264	376	328	270
EV / EBITDA (x)	-11.6	15.0	6.8	4.0	2.9
Payout Ratio (%)	-	-	-	0%	0%
Dividends (¢ps)	-	-	-	0%	0%
Yield (%)	-	-	-	0%	0%
Franking (%)	-	-	-	0%	0%

Board

Director	Position	Executive
Barnaby Egerton-Warburton	Chairman	Non-Executive
Paul Lloyd	Managing Director	Executive
Matthew Blumberg	Director	Executive
Zachary Maurer	Director	Executive

AZL – performance over one year



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document.

Analysis

Arizona Lithium Ltd (AZL)

Analyst : Andrew Harrington

10-Apr-24 Values in A\$ millions unless indicated otherwise

Share Price	(\$/sh)	0.027
Shares on Issue (m)	(#m)	3,842
Market Capitalization	(\$m)	104
Options, Perfs, Other	(#m)	1,291
Fully Diluted	(#m)	10,133 * Assumes \$175m Equity at \$0.035

Year End June

Income Statement	2025F	2026F	2027F	2028F	2029F	2030F
Revenue	0	36	81	135	150	150
Operating Costs	0	-10	-18	-44	-47	-47
Corporate&Admin	-10	-7	-7	-7	-7	-7
Explor.&Other	-2	-2	-2	-2	-2	-2
EBITDA	-11	18	55	83	95	95
D&A	0	-9	-18	-28	-31	-31
EBIT	-11	8	37	55	64	64
Net Interest	0	0	-23	-21	-19	-17
Ops PBT	-11	9	14	34	45	47
Ops NPAT	-8	6	10	25	33	34
Abnormals	0	0	0	0	0	0
PBT	-11	9	14	34	45	47
Tax	0	2	4	9	12	13
NPAT	-11	6	10	25	33	34
Basic EPS (cps)	-0.1	0.1	0.1	0.2	0.3	0.3
YE FPOs (b)	10.1	10.1	10.1	10.1	10.1	10.1
Sales Growth			127%	66%	11%	0%
Ops NPAT Growth			66%	140%	32%	4%
EPS Growth			66%	140%	32%	4%
PE		43.8x	26.4x	11.0x	8.4x	8.0x
EBITDA Margin		49%	68%	61%	63%	63%

Ratio Analysis	2025F	2026F	2027F	2028F	2029F
EV/EBITDA		15.0x	6.8x	4.0x	2.9x
EV/EBIT		31.6x	10.2x	6.0x	4.2x
Dividend (cps)	0.0	0.0	0.0	0.0	0.0
Div Yield	0%	0%	0%	0%	0%
Franking	0%	0%	0%	0%	0%
Payout Ratio	0%	0%	0%	0%	0%
ROCE	-4%	2%	7%	10%	11%
ROE	-3%	2%	4%	8%	10%
ROA	-3%	1%	2%	4%	5%
Gearing (D/E)	26%	68%	105%	89%	73%
ND/EBITDA	-2.5x	9.1x	4.9x	2.7x	1.8x
EBITDA Interest Cover	765x	-94x	2x	4x	5x

Resources/Reserves	Mt	PPM	Total	Mineral
Prairie-Wyrmark Resource	6,157	130	4,253	kt LCE
Prairie-Other Resource	5,267	75	2,094	kt LCE
Prairie-Total Resources	11,424	104	6,348	kt LCE
Big Sandy -Clay Resource	33	1,853	320	kt LCE

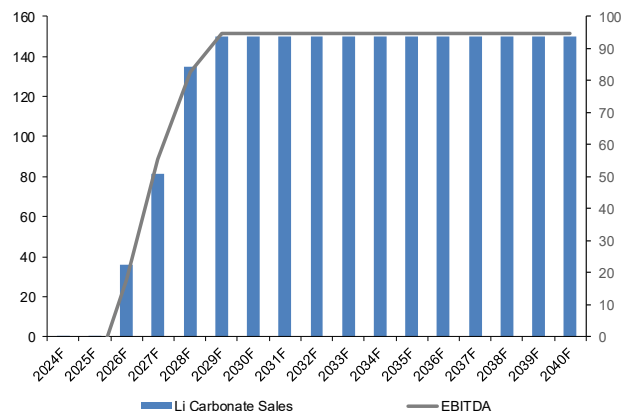
Assumptions	2025F	2026F	2027F	2028F	2029F
Currency AUD/USD	0.673	0.678	0.685	0.700	0.700
Lithium Carbonate (USD/t)	14,750	16,000	18,000	20,000	20,000
Sod.Bromide Price (USD/t)	5,000	5,000	5,000	5,000	5,000

Cash Flow Statement	2025F	2026F	2027F	2028F	2029F	2030F
Ops Receipts	0	36	81	135	150	150
Operating Costs	-10	-17	-25	-51	-54	-54
Net Interest	0	0	-23	-21	-19	-17
Tax Paid	0	-2	-4	-9	-12	-13
Ops Cash Flow	-10	17	30	54	65	66
CapEx	-194	-146	-139	-3	-3	-3
Exploration	-3	-3	-3	-3	-3	-3
Acquisitions	0	0	0	0	0	0
Investing CF	-197	-149	-142	-6	-6	-6
Free Cash Flow	-204	-129	-109	51	61	63
Change in Debt	66	113	106	-22	-22	-22
Change in Equity*	175	0	0	0	0	0
Dividends Paid	0	0	0	0	0	0
Financing CF	241	113	106	-22	-22	-22
Change in Cash	34	-19	-6	26	37	38

Operations (100% basis)	2025F	2026F	2027F	2028F	2029F
Li Carbonate Sales (kt)	0.0	1.8	3.6	5.4	6.0
Other Product Sales (kt)	0.0	0.0	0.0	0.0	0.0
Total Sales (kt)	0.0	1.8	3.6	5.4	6.0

Lith.Carb.CashCosts US\$/t 3,509 3,169 3,110 3,084

Revenue by Product (lhs) and EBITDA (rhs) (\$m)



Balance Sheet	2025F	2026F	2027F	2028F	2029F	2030F
Cash	37	18	13	39	75	114
Trade Receivables	0	5	12	20	23	23
Inventories, Other	0	3	7	11	12	12
Current Assets	38	27	32	70	110	148
PPE	206	343	463	439	412	384
Other Non-Current	82	85	89	93	95	97
Non-Current Assets	288	428	552	532	507	481
Total Assets	326	455	584	602	617	630
Trade Payables	2	3	4	8	8	8
Current Debt	10	27	43	39	36	33
Provisions, Other	1	1	1	1	1	1
Current Liabilities	12	30	47	48	45	42
Long Term Debt	56	152	242	224	205	187
Other	2	11	22	33	37	37
Non-Current Liabilities	58	163	265	257	242	224
Total Liabilities	70	193	312	305	287	266
Net Assets	256	262	272	297	330	364
Contributed Equity	353	353	353	353	353	353
Retained Earnings	-126	-120	-109	-85	-52	-18

Valuation +1yr	Method	A\$m	A\$/Sh (diluted)
Prairie DLE Lithium	NPV10	736	0.07
Big Sandy Lithium	Est.	75	0.01
Lordsburg Lithium	Est.	25	0.00
Unpaid Capital	A/C	0	0.00
Corporate Costs	NPV10	(62)	(0.01)
Net Cash (Debt)	A/C	(159)	(0.02)
Valuation		616	0.06

Source: Petra Capital, * Assumes \$175m Equity at \$0.035 in 2025F

Executive Summary

Moving very quickly toward production of Lithium via DLE

AZL is quickly advancing the development of its 100%-owned Prairie Lithium Project in Saskatchewan. It aims to begin commercial production in mid-2025, less than 18 months away. The project stands out due to the speed of execution, having already secured approval for three production wells. The company has in-house Direct Lithium Extraction (DLE) and carbonation technology but is using existing DLE from EnergySource, with a modular approach which will lower the environmental footprint and capex profile.

There are few other near-term potential Lithium Carbonate suppliers in North America that can take advantage of the large government loans and grants, which could further improve the speed and economics of the project. We note the large 6.3Mt LCE resource base could also support multiple expansions to meet future demand requirements in the North American market. AZL has outlined aspirations to grow production to 24-30ktpa following the successful completion of the 6ktpa project.

Strong returns on a conservative set of base case assumptions

Based on the recent PFS, we assume Prairie is developed as a 6ktpa Lithium Carbonate operation for capex of A\$485m. First lithium carbonate sales are assumed in FY26 and a gradual ramp-up to full production in FY28; this compares to AZL's target of first production in 1H-CY25. At our US\$20,000/t long term Lithium Carbonate price (minus a US\$2,600/t deduction for technical grade), Prairie exhibits strong earnings of A\$103m/pa EBITDA, an IRR of 26% and valuation upside. We assume low cash costs of US\$3,084/t and AISC of US\$5,000/t, with EBITDA margins of over 60%.

There is also significant leverage to higher lithium prices and expanded production, with each 2ktpa LCE module adding A\$80m in NPV and every 10% increase in pricing adding A\$150m in project valuation.

An excellent jurisdiction for mineral development

The Canadian Province of Saskatchewan is a mining-friendly jurisdiction. The major industries are agriculture, mining and energy, the latter of which contributes 17% of provincial GDP, the largest of any sector. Saskatchewan is a major exporter of potash (world's largest), uranium, oil, and gas.

It has a well-developed approval process that is very familiar with oil and gas drilling, production, and reinjection. AZL intends to take a very similar approach to extract brines and has already received approvals for lithium production from three wells. Land holder agreements have also been secured.

The North American auto industry is extremely short lithium

The plans for electric vehicle production and associated battery manufacturing plants in North America have accelerated to the point where the expected demand for lithium is equivalent to more than 140x Prairie operations. Whilst conventional and unconventional lithium projects are advancing, there is insufficient domestic supply that can allow automakers to qualify for the full IRA subsidies.

BUY, Price Target of \$0.06 per share

Underpinned by an NPV₁₀ valuation for the Prairie Lithium Project of A\$736, we calculate AZL's equity value at A\$616m or A\$0.06/sh (fully diluted for additional equity of A\$175m at A\$0.035/sh). At spot prices, our valuation declines to A\$440m. We calculate an IRR of 26% in our base case.

Key Risks

Technology Risk with DLE: we have used the broad operating parameters for DLE as disclosed by the company and our industry knowledge, but the potential for inferior performance may see lower recoveries, extended ramp-up and/or higher costs.

Lithium price & exchange rate: Lithium price volatility and currency fluctuations may affect the company's profitability, financial position and share price.

Cost overruns: As commodity prices rally globally, mining input costs, such as wages, consumables, diesel and energy, often increase at a higher rate than general inflation. There is therefore a risk that capital and operating costs are higher than expected, with negative impacts on cash flow and valuation.



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