

15 May 2024

**Arizona Lithium Limited (AZL) BUY Share Price: A\$0.02**

**Equinor-SLI transaction provides nice peer comp Target Price: A\$0.06**

The recent M&A activity in the lithium sector continues, with Equinor (EQNR:NYSE) buying into the DLE brine projects of Standard Lithium (SLI:TSXV) in the Smackover formation of Arkansas and Texas in a US\$160m deal. Equinor, an US\$84b oil and gas major, is buying 45% of two DLE brine projects and funding them to FID. This transaction from Equinor follows the aggressive push into DLE from oilfield brines by Exxon (Figure 1). This large investment by a second energy major provides an attractive peer comp of A\$300/t LCE and further validation of the AZL business plan in Saskatchewan (also in an established oilfield, Figure 2). AZL plans to have the Prairie project in production by late-2025, before SLI. Retain BUY with a PT of A\$0.06/sh (no change)

**Implied valuation of A\$1.9b from transaction comp**

- Equinor is buying into the South West Arkansas (SWA) project and the early-stage East Texas project. The SWA PFS shows a Resource of 785MT @ 436ppm Li for 1.8Mt LCE. The stated capex is US\$1.3b for 30ktpa of Lithium Hydroxide via DLE.
- On a 100% basis the transaction equates to US\$355m and an implied resource multiple of A\$300/t LCE.
- AZL hosts 11,424Mt @ 104ppm Li for 6.3Mt LCE of Resources. Its PFS shows capex of US\$334m for 6ktpa of production. Using the Equinor-SLI transaction multiple, it equates to A\$1,890m in resource valuation. This compares to an AZL market cap. of A\$93m.
- AZL is moving very fast, having received its production permits in Saskatchewan, and aiming for production by late-2025. It is due to begin a new well in Jun.Q'24.
- Smackover is akin to southern Saskatchewan, with established oil and gas production and a large body of data on brine layers, hence the interest from oil majors.

**Prairie Pilot Plant produced 13,500L of Li.Chloride**

- The DLE pilot plant operations at the Prairie Project in Saskatchewan processed over 200,000L of brine, and achieved 95% lithium recovery and excellent impurity rejection of over 99% (except Boron at 97.6%), producing over 13,500L of lithium chloride concentrate.

**Cash of A\$19m and new A\$10m ATM facility**

- AZL has A\$19m in cash and entered into an At-the-Market Agreement (ATM) with Acuity Capital for up to \$10m of standby equity capital up until 31-Jan-29.

**Key Dates Ahead**

- Sep.Q'24 – customer qualification and DD
- Late 2025 – first commercial production

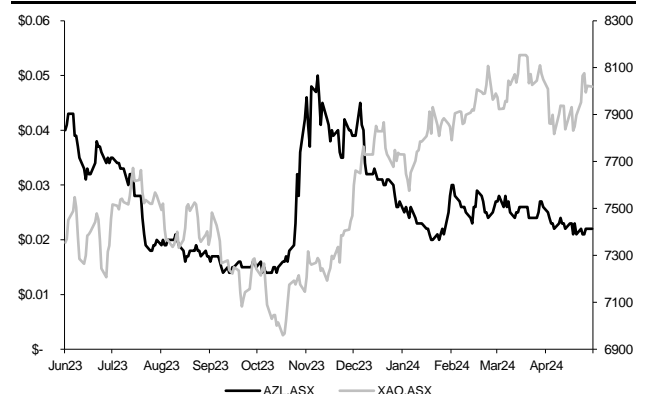
**Company Data**

Shares— ordinary (M) (Excl.424m escrowed)	4,042
Dilution (M)	1,291
Total (fully diluted) (M)	5,333
Market capitalisation (\$M)	93
12 month low/high (\$)	0.01/ 0.06
Average monthly turnover (\$M)	3.5
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)	-20.7	38.0	22.9	9.6	7.3
Op. Cashflow (\$M)	-10	17	30	54	65
OCFPS (¢ps)	-0.1	0.2	0.3	0.5	0.6
POCFPS (x)	-23.9	14.0	7.8	4.4	3.7
Enterprise Value (\$M)	118	249	361	313	255
EV / EBITDA (x)	-10.2	14.2	6.5	3.8	2.7
Payout Ratio (%)	-	-	-	0%	0%
Dividends (¢ps)	-	-	-	0%	0%
Yield (%)	-	-	-	0%	0%
Franking (%)	-	-	-	0%	0%

**AZL – performance over one year**



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## Analysis

### Arizona Lithium Ltd (AZL)

Analyst : Andrew Harrington

14-May-24 Values in A\$ millions unless indicated otherwise

Year End June

Income Statement	2025F	2026F	2027F	2028F	2029F	2030F
<b>Revenue</b>	<b>0</b>	<b>36</b>	<b>81</b>	<b>135</b>	<b>150</b>	<b>150</b>
Operating Costs	0	-10	-18	-44	-47	-47
Corporate&Admin	-10	-7	-7	-7	-7	-7
Explor.&Other	-2	-2	-2	-2	-2	-2
<b>EBITDA</b>	<b>-11</b>	<b>18</b>	<b>55</b>	<b>83</b>	<b>95</b>	<b>95</b>
D&A	0	-9	-18	-28	-31	-31
<b>EBIT</b>	<b>-11</b>	<b>8</b>	<b>37</b>	<b>55</b>	<b>64</b>	<b>64</b>
Net Interest	0	0	-23	-21	-19	-17
Ops PBT	-11	9	14	34	45	47
<b>Ops NPAT</b>	<b>-8</b>	<b>6</b>	<b>10</b>	<b>25</b>	<b>33</b>	<b>34</b>
Abnormals	0	0	0	0	0	0
<b>PBT</b>	<b>-11</b>	<b>9</b>	<b>14</b>	<b>34</b>	<b>45</b>	<b>47</b>
Tax	0	2	4	9	12	13
<b>NPAT</b>	<b>-11</b>	<b>6</b>	<b>10</b>	<b>25</b>	<b>33</b>	<b>34</b>
Basic EPS (cps)	-0.1	0.1	0.1	0.2	0.3	0.3
YE FPOs (b)	10.3	10.3	10.3	10.3	10.3	10.3
Sales Growth			127%	66%	11%	0%
Ops NPAT Growth			66%	139%	32%	4%
EPS Growth			66%	139%	32%	4%
PE		38.0x	22.9x	9.6x	7.3x	7.0x
EBITDA Margin		49%	68%	61%	63%	63%

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
<b>Ops Cash Flow</b>	<b>-10</b>	<b>17</b>	<b>30</b>	<b>54</b>	<b>65</b>	<b>66</b>
CapEx	-194	-146	-139	-3	-3	-3
Exploration	-3	-3	-3	-3	-3	-3
Acquisitions	0	0	0	0	0	0
<b>Investing CF</b>	<b>-197</b>	<b>-149</b>	<b>-142</b>	<b>-6</b>	<b>-6</b>	<b>-6</b>
<b>Free Cash Flow</b>	<b>-204</b>	<b>-129</b>	<b>-109</b>	<b>51</b>	<b>61</b>	<b>63</b>
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
<b>Financing CF</b>	<b>241</b>	<b>113</b>	<b>106</b>	<b>-22</b>	<b>-22</b>	<b>-22</b>
<b>Change in Cash</b>	<b>34</b>	<b>-19</b>	<b>-6</b>	<b>26</b>	<b>37</b>	<b>38</b>

Balance Sheet	2025F	2026F	2027F	2028F	2029F	2030F
Cash	42	23	17	43	80	118
Trade Receivables	0	5	12	20	23	23
Inventories, Other	0	3	7	11	12	12
<b>Current Assets</b>	<b>42</b>	<b>31</b>	<b>36</b>	<b>74</b>	<b>114</b>	<b>153</b>
PPE	206	343	463	439	412	384
Other Non-Current	82	85	89	93	95	97
<b>Non-Current Assets</b>	<b>288</b>	<b>428</b>	<b>552</b>	<b>532</b>	<b>507</b>	<b>481</b>
<b>Total Assets</b>	<b>330</b>	<b>459</b>	<b>588</b>	<b>606</b>	<b>622</b>	<b>634</b>
Trade Payables	2	3	4	8	8	8
Current Debt	10	27	43	39	36	33
Provisions, Other	1	1	1	1	1	1
<b>Current Liabilities</b>	<b>12</b>	<b>30</b>	<b>47</b>	<b>48</b>	<b>45</b>	<b>42</b>
Long Term Debt	56	152	242	224	205	187
Other	2	11	22	33	37	37
<b>Non-Current Liabilities</b>	<b>58</b>	<b>163</b>	<b>265</b>	<b>257</b>	<b>242</b>	<b>224</b>
<b>Total Liabilities</b>	<b>70</b>	<b>193</b>	<b>312</b>	<b>305</b>	<b>287</b>	<b>266</b>
<b>Net Assets</b>	<b>260</b>	<b>266</b>	<b>277</b>	<b>301</b>	<b>334</b>	<b>368</b>
Contributed Equity	352	352	352	352	352	352
Retained Earnings	-122	-115	-105	-80	-47	-13

Share Price	(\$/sh)	0.023
Shares on Issue (m)	(#m)	4,042
<b>Market Capitalization</b>	<b>(\$m)</b>	<b>93</b>
Options, Perfs, Other	(#m)	1,291
Fully Diluted	(#m)	10,333 * Assumes \$175m Equity at \$0.035

Ratio Analysis	2025F	2026F	2027F	2028F	2029F
EV/EBITDA		14.2x	6.5x	3.8x	2.7x
EV/EBIT		29.8x	9.8x	5.7x	4.0x
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%	67%	103%	87%	72%
ND/EBITDA	-2.2x	8.9x	4.8x	2.7x	1.7x
EBITDA Interest Cover	319x	-84x	2x	4x	5x

Resources/Reserves	Mt	PPM	Total	Mineral
Prairie-Wymark Resource	6,157	130	4,253	kt LCE
Prairie-Other Resource	5,267	75	2,094	kt LCE
<b>Prairie-Total Resources</b>	<b>11,424</b>	<b>104</b>	<b>6,348</b>	<b>kt LCE</b>

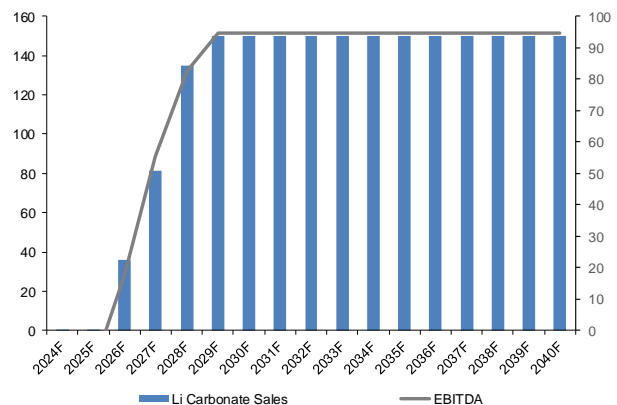
Big Sandy -Clay Resource	33	1,853	320	kt LCE
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Assumptions	2025F	2026F	2027F	2028F	2029F
Currency AUD/USD	0.673	0.678	0.685	0.700	0.700
Lithium Carbonate (USD/t)	14,750	16,000	18,000	20,000	20,000
Sod.Bromide Price (USD/t)	5,000	5,000	5,000	5,000	5,000

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
<b>Total Sales (kt)</b>	<b>0.0</b>	<b>1.8</b>	<b>3.6</b>	<b>5.4</b>	<b>6.0</b>

Lith.Carb.CashCosts US\$/t		3,509	3,169	3,110	3,084
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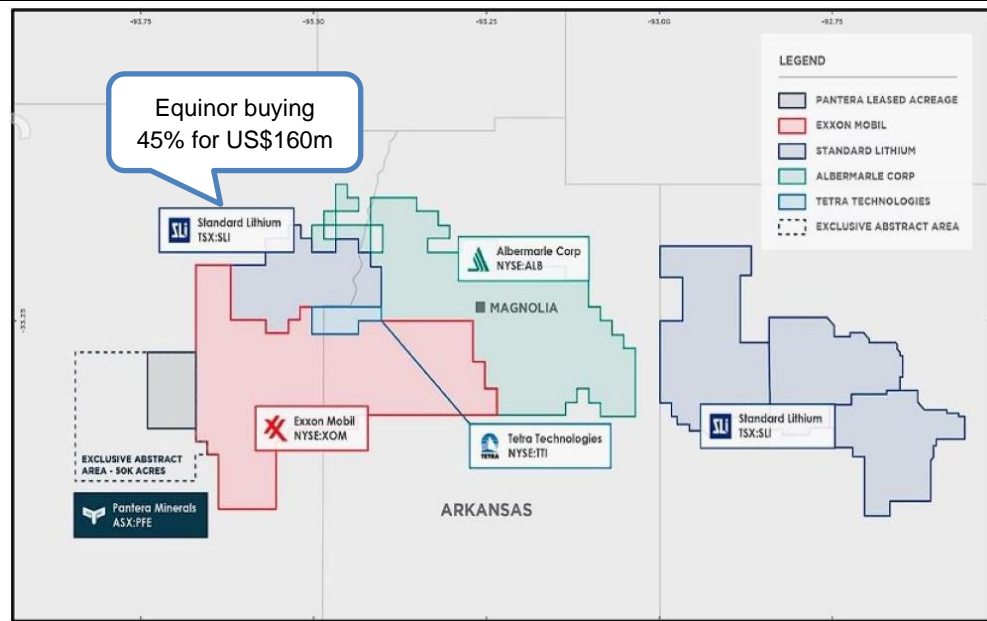
#### Revenue by Product (lhs) and EBITDA (rhs) (\$m)



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	(154)	(0.01)
<b>Valuation</b>		<b>620</b>	<b>0.06</b>

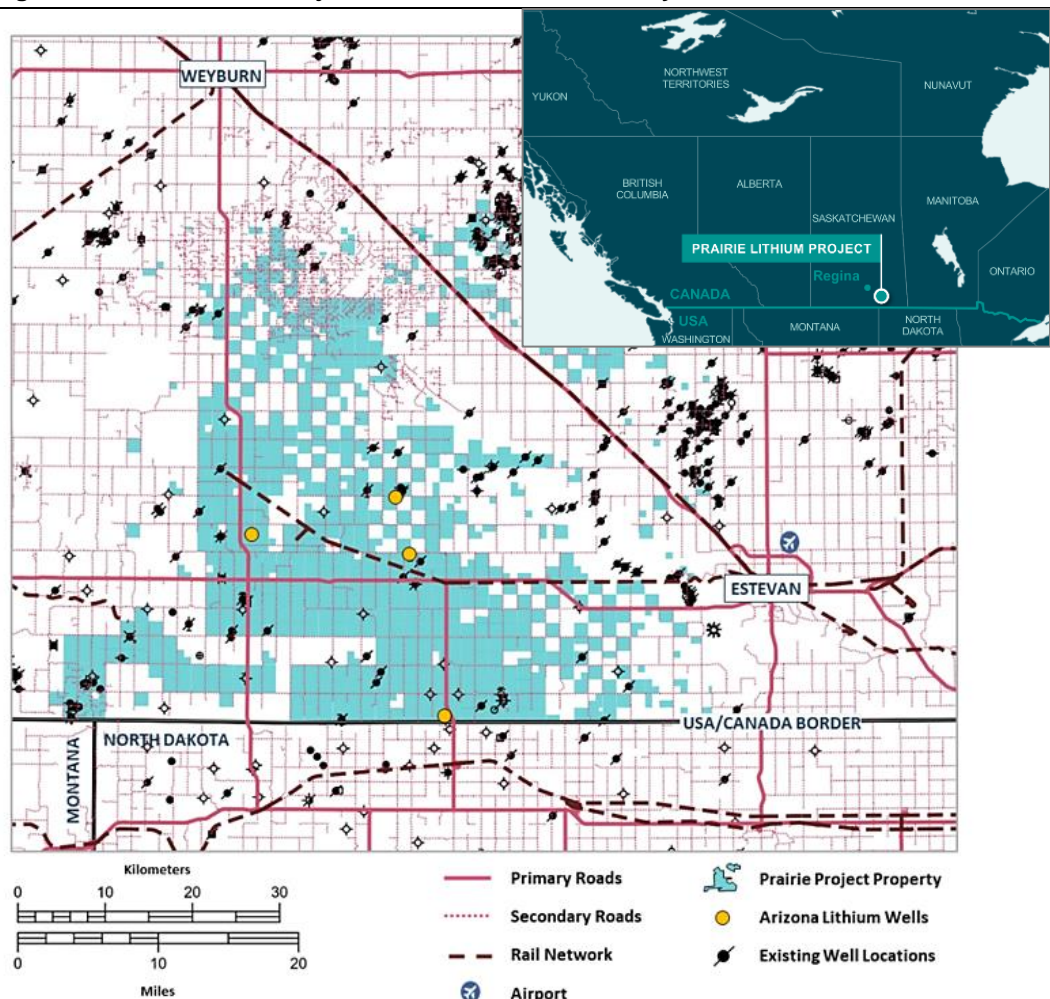
Source: Petra Capital

**Figure 1: Lithium brine land holdings in Arkansas**



Source: PFE

**Figure 2: Prairie Lithium Project tenement areas and nearby infrastructure**



Source: AZL, Petra



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