

European Lithium Limited

Australia / Mining
 Frankfurt, Sydney, Vienna
 Bloomberg: PF8 GR
 ISIN: AU000000EUR7

Update

RATING
BUY

PRICE TARGET
€ 0.22

Return Potential 120.0%
 Risk Rating High

DFS FINANCING SECURED; SHIFT IN MAIN LISTING TO VIENNA LIKELY

European Lithium (EUR) has announced that it has secured AUD10m in financing from the investor MEFI L.P. (Magna) of which AUD2.5m is available for immediate draw down. The money will be used to finance the definitive feasibility study (DFS) of the Wolfsberg Lithium Project, which is expected to be completed in April 2019. We expect these funds to strengthen EUR's position in ongoing negotiations with potential offtake partners. EUR has also stated that it is considering moving its primary listing from Sydney to Vienna. Given that the project is located in Austria, this move makes good sense in our view in terms of consolidating support from Austrian and wider European financial and political circles. EUR has opted to produce lithium hydroxide rather than the more commonly produced lithium carbonate because lithium battery manufacture is shifting towards increased use of nickel and reduced use of cobalt. This trend requires the use of lithium hydroxide rather than lithium carbonate. According to Benchmark Mineral Intelligence (BMI), usage of lithium hydroxide will grow 2.5 times faster than lithium carbonate. Our long term lithium hydroxide price assumption is almost unchanged on our May study at over USD18,000/tonne. We have raised our price target from €0.19 to €0.22 mainly because of the 5% appreciation of the US Dollar against the Australian Dollar since May. We maintain our Buy recommendation.

We estimate ca. AUD20m required for operations ahead of production EUR had AUD3.3m in cash on its balance sheet at the end of June. We estimate that the company will require ca. AUD20m to finance operations ahead of the scheduled start of production at Wolfsberg. We assume this money will come in part from MEFI L.P. and in part from the exercise of options. Regarding the latter point, 200m options with a strike price of AUD0.10 (the current price in Sydney is AUD0.165) will be released from escrow on 20 September. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2015/16A	2016/17A	2017/18A	2018/19E	2019/20E	2020/21E
Revenue (AUD m)	20.19	0.79	0.69	0.01	0.01	171.78
Y-o-y growth	n.a.	-96.1%	-12.5%	-98.3%	25.0%	n.m.
EBIT (AUD m)	19.11	-8.00	-0.74	-1.53	-1.68	91.29
EBIT margin	94.7%	n.m.	n.m.	n.m.	n.m.	55.1%
Net income (AUD m)	19.11	-8.01	-0.75	-1.49	-10.47	50.34
EPS (diluted) (AUD)	7.64	-2.02	-0.15	-0.25	-1.69	6.13
DPS (AUD)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (AUDm)	-0.38	-6.51	-5.02	-5.66	-309.18	-223.56
Net gearing	-6.3%	-4.5%	-11.4%	-18.2%	720.5%	565.4%
Liquid assets (AUD m)	0.34	0.55	3.26	5.09	16.28	17.72

RISKS

If the ongoing penetration of the automotive market by electric vehicles slows or comes to a halt, the lithium price is likely to fall.

COMPANY PROFILE

European Lithium is a mining exploration and development company focusing on its wholly owned Wolfsberg Lithium Project in Austria. The company targets the commencement of production of lithium carbonate/hydroxide for battery factories in 2021.

MARKET DATA

As of 14 Sep 2018

Closing Price	€ 0.10
Shares outstanding	545.70m
Market Capitalisation	€ 54.57m
52-week Range	€ 0.03 / 0.24
Avg. Volume (12 Months)	1,221,915

Multiples	2017/18A	2018/19E	2019/20E
P/E	n.a.	n.a.	n.a.
EV/Sales	122.9	7082.6	5666.1
EV/EBIT	n.a.	n.a.	n.a.
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2018

Liquid Assets	AUD 3.26m
Current Assets	AUD 3.86m
Intangible Assets	AUD 27.47m
Total Assets	AUD 30.93m
Current Liabilities	AUD 0.66m
Shareholders' Equity	AUD 30.93m

SHAREHOLDERS

Cape Lambert Resources	12.2%
Exchange Minerals Ltd.	10.4%
European Lithium	5.9%
Veni Vidi Vici Ltd	3.7%
Free float and other	67.8%

**Shift in main listing to Vienna to consolidate Austrian/EU support for the project**

Shareholders in EUR currently own the Wolfsberg Lithium Project through the Australian company European Lithium Ltd. which is the parent company of the Austrian project company ECM Lithium AT GmbH. EUR proposes to change the nationality of the stock market vehicle from Australian to Austrian through converting shares in European Lithium Ltd. into shares in a projected new company, European Lithium AG. Under this plan European Lithium AG would be created by renaming and changing the legal status of ECM Lithium AT GmbH. European Lithium Ltd. would become a shell company. EUR also plans to transfer the current Austrian listing from the Third Market of the Vienna Stock Exchange to the Prime Market. These moves would enhance the attractiveness of the EUR share to Austrian financial institutions and are also likely to strengthen support among Austrian and EU politicians who are in a position to grant subsidies to the Wolfsberg Lithium Project. They will also save the money currently spent on the Australian listing.

Appointment of experienced Project Director In early August EUR announced the appointment of Christian Heili as Project Director for the Wolfsberg Lithium Project. Mr Heili is a mining engineer with more than 30 years of experience in business, project management and wide-ranging operations including underground and beneficiation processes within the mining industry. Previous roles include Project Manager for Katanga Mining Ltd in DRC, Kinross Forrester Ltd in DRC, De Beers in South Africa, AngloGold Ashanti in Mali, Mine Manager for Mopani Copper Mines PLC, Production Manager for African Associated Mines (PVT) Ltd, and Anglo American Corp, VAAL Reefs Exploration and Mining Co. Ltd. Mr Heili will work closely with CEO Dietrich Wanke and consultants in overseeing the DFS.

Scope to raise price target further if imminent drilling campaign boosts resource The current JORC-compliant resource estimate for Wolfsberg (based solely on Zone 1) is 2.86m tonnes measured grading 1.28% lithium oxide, 3.44m tonnes indicated grading 1.08% lithium oxide and 4.68m tonnes inferred grading 0.78% lithium oxide. The preliminary feasibility study (PFS) published in April and our current valuation are based on the measured and indicated part of this resource estimate i.e. 6.3m tonnes grading 1.17% lithium oxide. Over the next few days EUR will begin a drilling programme with the intention of converting the inferred resources at Zone 1 into indicated resources. There will be scope to raise our price target, if, as we expect, European Lithium raises the measured and indicated part of its JORC resource to over 10m tonnes.

Valuation model assumptions little changed on May study Our current valuation model and changes to the key assumptions underlying the model are shown in figures 1 and 2 below. In early 2018 the start of the near-term drilling programme was scheduled for May, the completion of the DFS for the end of this year, and the start of production in 2020. Completion of the DFS is now expected in April 2019 and the start of production in Q1 2021 (previously: 2020). This explains the reduction in our 2020/21 revenue forecast from AUD220.6m to AUD171.8m.

Price target now €0.22 (previously: €0.19). Buy recommendation maintained As figure 2 shows, the assumptions underlying our valuation model deviate only slightly from our May study. Our yearly lithium hydroxide price forecasts are unchanged on the numbers provided by BMI for the preliminary feasibility study published in April. However, our total sales and average price forecast falls because the start of production is pushed back and BMI expects a slight decline in the commodity price during the latter years of our forecast period. Our price target rises from €0.19 to €0.22 mainly because of the 5% appreciation of the US Dollar against the Australian Dollar since our May study. We maintain our Buy recommendation.



Figure 1: Valuation model

	19/20E	20/21E	21/22E	22/23E	23/24E	24/25E	25/26E	26/27E	27/28E	28/29E	29/30E	30/31E
Total mined (k tonnes)		332.5	707.5	740.0	720.0	725.0	740.0	725.0	720.0	715.0	690.0	620.4
Run of mine grade (Li ₂ O)		0.71%	0.71%	0.71%	0.71%	0.71%	0.71%	0.71%	0.71%	0.71%	0.71%	0.71%
Li ₂ O recovery to spodumene concentrate		75.4%	75.4%	75.4%	75.4%	75.4%	75.4%	75.4%	75.4%	75.4%	75.4%	75.4%
Spodumene concentrate produced (6% Li ₂ O)		30,008	63,852	66,785	64,980	65,431	66,785	65,431	64,980	64,528	62,272	55,990
Li ₂ O recovery in conversion plant		89.7%	89.7%	89.7%	89.7%	89.7%	89.7%	89.7%	89.7%	89.7%	89.7%	89.7%
LiOH H ₂ O produced (tonnes)		4,529	9,638	10,080	9,808	9,876	10,080	9,876	9,808	9,740	9,399	8,451
LiOH H₂O price (USD/tonne)		24,200	25,025	23,650	21,450	19,250	16,300	15,000	15,000	15,000	15,000	15,000
LiOH H₂O revenue (USDm)		109.6	241.2	238.4	210.4	190.1	164.3	148.1	147.1	146.1	141.0	126.8
By-products (USDm)		14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2
Total revenue (USDm)		123.5	254.7	251.9	224.0	203.8	178.0	161.9	160.9	159.9	154.8	140.6
Direct mining and sorting cost (USDm) (USD4,179/t Li ₂ CO ₃)		18.9	40.3	42.1	41.0	41.3	42.1	41.3	41.0	40.7	39.3	35.3
Processing and G&A cost (USDm) (USD4,117/t Li ₂ CO ₃)		18.6	39.7	41.5	40.4	40.7	41.5	40.7	40.4	40.1	38.7	34.8
EBITDA (USDm)		85.9	174.7	168.3	142.6	121.8	94.4	80.0	79.5	79.1	76.8	70.5
Depreciation (USDm)		18.9	40.3	42.2	41.0	41.3	42.2	41.3	41.0	40.7	39.3	35.3
EBIT (USDm)		67.0	134.4	126.1	101.6	80.5	52.2	38.7	38.5	38.3	37.5	35.1
25% tax (USDm)		16.7	33.6	31.5	25.4	20.1	13.1	9.7	9.6	9.6	9.4	8.8
Operating CF after tax (USDm)		69.2	141.1	136.8	117.2	101.7	81.3	70.3	69.9	69.5	67.4	61.7
Capital cost mine (USDm)	39.1	39.1										
Capital cost processing plant (USDm)	172.7	172.7										
Net cashflow (USDm)	-211.8	-142.6	141.1	136.8	117.2	101.7	81.3	70.3	69.9	69.5	67.4	61.7
NPV net cashflows (discount rate: 10%)	-178.7	-109.4	98.4	86.7	67.5	53.3	38.7	30.4	27.5	24.9	21.9	18.2
Sum NPVs (USDm)	179.5											
Sum NPVs (AUDm)	249.7											
End June 2018 net cash position (AUDm)	3.3											
Proceeds of option exercise (AUDm)	20.4											
Pre-production equity capital raise (AUDm)	7.5											
Total equity valuation	280.9											
Current no. shares outstanding (m)	545.7											
No. shares issued against option exercise (m)	204.4											
No. shares issued through equity capital raise (m)	53.5											
Proforma share count (m)	803.6											
Value per share (AUD)	0.350											
Value per share (€)	0.216											

Source: European Lithium, First Berlin Equity Research estimates

**Figure 2: Key assumptions underlying our valuation model**

	Old	New	Delta %
Life of mine	11 years	11 years	0.0%
Average LiOH H ₂ O price (USD/tonne)	18,555	18,395	-0.9%
LiOH H ₂ O volume (tonnes)	101,287	101,287	0.0%
Total sales of LiOH H ₂ O (USDm)	1,874	1,858	-0.8%
Total sales of by-products (USDm) (feldspar, quartz, mica, sodium sulphate)	155.7	155.7	0.0%
Total sales (USDm)	2,030	2,014	-0.8%
LiOH H ₂ O production cost (USD/tonne)	8,296	8,296	0.0%
Total EBITDA (USDm)	1,190	1,174	-1.4%
Capital cost of mine construction (USDm)	78.2	78.2	0.0%
Capital cost of process plant (USDm)	345.4	345.4	0.0%
Total capital costs (USDm)	423.6	423.6	0.0%
Tax charge	25%	25%	-
Discount rate	10%	10%	-
Project NPV (USDm)	155.0	179.5	15.8%
Project NPV (AUDm)	205.7	249.7	21.4%
Proforma net cash position (AUDm)	44.8	31.1	-30.5%
Total equity valuation (AUDm)	250.5	280.9	12.1%
Proforma share count (m)	860.6	803.6	-6.6%
Value per share (AUD)	0.291	0.350	20.1%
Value per share (€)	0.187	0.216	15.6%

Source: European Lithium, DRA Global, Benchmark Mineral Intelligence, First Berlin Equity Research estimates



INCOME STATEMENT

All figures in AUD	2015/16A	2016/17A	2017/18A	2018/19E	2019/20E	2020/21E
Revenue and other incomes	20,193,003	790,705	691,713	12,000	15,000	171,784,322
Mining and processing costs	0	0	0	0	0	-52,279,493
Parent co. employee benefits expense	0	-315,124	-213,548	-234,903	-258,393	-284,232
Consulting fees	-8,043	-596,163	-481,273	-529,400	-582,340	-640,574
Travel expenses	0	-226,201	-268,015	-294,817	-324,298	-356,728
Regulatory and compliance costs	-22,847	-381,828	-178,464	-196,310	-215,941	-237,536
Reverse takeover transaction cost	0	-4,925,229	0	0	0	0
Other expenses	-52,593	-2,215,810	-255,746	-281,321	-309,453	-340,398
EBITDA	20,109,520	-7,869,650	-705,333	-1,524,751	-1,675,426	117,645,361
Depreciation, amortisation and impairment	-996,178	-127,820	-36,180	-2,400	-2,400	-26,357,512
Operating income (EBIT)	19,113,342	-7,997,470	-741,513	-1,527,151	-1,677,826	91,287,849
Net financial result	-2,691	-10,893	-8,285	40,966	-8,793,335	-24,164,590
Pre-tax income (EBT)	19,110,651	-8,008,363	-749,798	-1,486,185	-10,471,161	67,123,258
Income taxes	0	0	0	0	0	-16,780,815
Net income / loss	19,110,651	-8,008,363	-749,798	-1,486,185	-10,471,161	50,342,444
Diluted EPS (in AUD)	7.64	-2.02	-0.15	-0.25	-1.69	6.13
Ratios						
EBITDA margin on revenues	99.6%	n.m.	n.m.	n.m.	n.m.	68.5%
EBIT margin on revenues	94.7%	n.m.	n.m.	n.m.	n.m.	53.1%
Net margin on revenues	94.6%	n.m.	n.m.	n.m.	n.m.	29.3%
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	25.0%
Expenses as % of revenues						
Mining and processing costs	n.m.	n.m.	n.m.	n.m.	n.m.	30.4%
Parent co. employee benefits expense	n.m.	39.9%	30.9%	1957.5%	1722.6%	0.2%
Other expenses	0.3%	280.2%	37.0%	2344.3%	2063.0%	0.2%
Y-Y Growth						
Revenues	n.a.	-96.1%	-12.5%	-98.3%	25.0%	n.m.
Operating income	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.
Net income/ loss	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.



BALANCE SHEET

All figures in AUD	2015/16A	2016/17A	2017/18A	2018/19E	2019/20E	2020/21E
Assets						
Current assets, total	426,224	1,079,853	3,858,732	5,694,758	17,031,980	22,872,882
Cash and cash equivalents	344,286	549,855	3,258,892	5,094,758	16,281,980	17,719,352
Trade and other receivables	81,938	330,765	599,840	600,000	750,000	5,153,530
Restricted cash and other deposits	0	199,233	0	0	0	0
Non-current assets, total	17,101,967	21,791,323	27,726,120	31,727,120	330,408,460	602,745,688
Property, plant & equipment	0	6,150	4,880	5,880	294,687,220	563,024,448
Deferred exploration and evaluation expenditure	17,072,463	21,532,875	27,465,305	31,465,305	35,465,305	39,465,305
Restricted cash and other financial assets	29,504	252,298	255,935	255,935	255,935	255,935
Total assets	17,528,191	22,871,176	31,584,852	37,421,878	347,440,440	625,618,570
Shareholders' equity & debt						
Current liabilities, total	1,009,236	523,484	656,789	480,000	600,000	3,435,686
Trade and other payables	337,836	523,484	656,789	480,000	600,000	3,435,686
Borrowings	671,400	0	0	0	0	0
Long term liabilities, total	0	0	0	7,500,000	307,500,000	532,500,000
Borrowings	0	0	0	0	300,000,000	525,000,000
Convertible notes	0	0	0	7,500,000	7,500,000	7,500,000
Shareholders' equity	16,518,955	22,347,692	30,928,063	29,441,878	39,340,440	89,682,883
Total consolidated equity and debt	17,528,191	22,871,176	31,584,852	37,421,878	347,440,440	625,618,570
Ratios						
Current ratio (x)	0.42	2.06	5.88	11.86	28.39	6.66
Quick ratio (x)	0.42	2.06	5.88	11.86	28.39	6.66
Net debt	-1,045,190	-1,001,386	-3,514,827	-5,350,693	283,462,085	507,024,713
Net gearing	-6.3%	-4.5%	-11.4%	-18.2%	720.5%	565.4%
Book value per share (in AUD)	n.m.	0.05	0.06	0.05	0.07	0.15
Return on equity (ROE)	n.a.	-41.2%	-0.7%	-4.9%	-30.4%	78.0%



CASH FLOW STATEMENT

All figures in AUD	2015/16A	2016/17A	2017/18A	2018/19E	2019/20E	2020/21E
Cash flow from operating activities						
Revenue from mining	0	0	0	0	0	171,784,322
Payments to suppliers, employees; mining costs	-37,127	-2,922,853	-1,557,730	-1,700,879	-1,705,426	-55,706,804
Payments for exploration	0	-3,575,108	-4,279,180	-4,000,000	-4,000,000	-4,000,000
Net interest received/(paid)	107	3,251	23,990	40,966	-8,793,335	-24,164,590
Decrease/(increase) in restricted cash balances	0	-422,027	221,362	-821	0	0
VAT refund	63,346	0	140,234	0	0	0
Tax paid	0	0	0	0	0	-16,780,815
Net cash provided by/(used in) operating activities	26,326	-6,916,737	-5,451,324	-5,660,734	-14,498,761	71,132,112
Cash flow from investing activities						
Proceeds from the sale of exploration tenements	-409,405	70,000	430,000	0	0	0
Payment for property, plant and equipment	0	-6,838	0	-3,400	-294,683,740	-294,694,740
Cash acquired on acquisition of accounting subsidiary	0	343,642	0	0	0	0
Net cash provided by/(used in) investing activities	-409,405	406,804	430,000	-3,400	-294,683,740	-294,694,740
Free cash flow	-383,079	-6,509,933	-5,021,324	-5,664,134	-309,182,501	-223,562,628
Cash flow from financing activities						
Proceeds from capital raisings/option exercise	0	7,016,675	8,502,309	0	20,369,722	0
Payment for share issue costs	0	-299,801	-781,033	0	0	0
Increase/(decrease) in loans and borrowings	-37,463	0	0	0	300,000,000	225,000,000
Convertible notes				7,500,000		
Transfer to subsidiaries	754,759	0	0	0	0	0
Net cash provided by financing activities	717,296	6,716,874	7,721,276	7,500,000	320,369,722	225,000,000
Net increase in cash and cash equivalents	334,217	206,941	2,699,952	1,835,866	11,187,222	1,437,372
Cash and cash equivalents at the beginning of the year	16,591	344,286	549,855	3,258,892	5,094,758	16,281,980
Effects of exchange rate fluctuations on cash held	-6,522	-1,372	9,085	0	0	0
Cash and cash equivalents at the end of the year	344,286	549,855	3,258,892	5,094,758	16,281,980	17,719,352
EBITDA/share (in AUD)	8.04	-1.98	-0.14	-0.34	-0.36	20.61
Y-Y Growth						
Operating cash flow	n.a.	2938.3%	637.9%	70.8%	n.m.	n.m.
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	7 March 2018	€0.15	Add	€0.19
2	23 May 2018	€0.13	Buy	€0.19
3	Today	€0.10	Buy	€0.22

Authored by: Simon Scholes, Analyst

Company responsible for preparation:

First Berlin Equity Research GmbH

Mohrenstraße 34
10117 Berlin

Tel. +49 (0)30 - 80 96 93 94 Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com
www.firstberlin.com

Person responsible for forwarding or distributing this financial analysis: Martin Bailey

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ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

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Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

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SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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