

# Funded for Tranche 3 Payment; Lifting PT

LIN.ASX | LINDIAN RESOURCES LIMITED | RARE EARTHS | DEVELOPMENT & EXPLORATION

PRICE  
**A\$0.35/sh**

TARGET PRICE  
**A\$0.70/sh**  
(FROM A\$0.65/sh)

RECOMMENDATION  
**SPECULATIVE BUY**  
(UNCHANGED)

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## Event

LIN has raised gross proceeds of A\$35m via the placement of 106m shares at \$0.33/sh. Funds raised have been flagged for the imminent US\$10m Tranche 3 Kangankunde acquisition payment and construction of the Stage 1 processing plant.

## Impact

**Funded for acquisition payment.** The third tranche Kangankunde acquisition payment of US\$10m falls payable in late Jul'23, after which LIN's interest in Rift Valley Resource Developments Ltd (entity with 100% owned title to the Kangankunde Exploration and Mining Licenses) will increase to 66%. A fourth and final acquisition payment of US\$10m to increase LIN's ownership interest to 100% is payable on the earlier of commencement of commercial production or Aug'26. We continue to model the fourth tranche acquisition payment in MarQ'25 in line with our assumed commencement of Stage 1 production.

**Stage 1 development funding derisked.** The balance of placement proceeds of ~A\$18m following the Tranche 3 acquisition payment will meaningfully contribute towards Stage 1 processing plant capital costs. Prior company CapEx guidance of ~A\$20m for indicative Stage 1 throughput capacity of 440ktpa is materially lower than our current estimate of US\$30m. For now, we have conservatively left this assumption unchanged, and await confirmation of lower upfront CapEx over DecQ'23 as capital costs are confirmed on progression of the plant tendering process.

**Balance of Phase 1 assay results, maiden MRE due imminently.** Assay results for the final 18 holes from the Phase 1 resource definition program are pending, which are concentrated in the northern area of the central carbonatite where the highest TREO grades have previously been encountered. These results will inform the maiden JORC 2012 Kangankunde MRE, which is due shortly thereafter. As a reminder, our conceptual Inferred resource estimate stands at **250mt @ 2.40% TREO with an NdPr assemblage of 20%** (Fig. 7). The confirmation of a high-grade subset of the MRE in the northern zone of the central carbonatite presents as a key value catalyst, in our view; beyond rare earth prices, we see the most valuation upside in the assumption of higher than currently modelled TREO head grades from the commencement of Stage 2 operations (Fig. 9). For illustrative purposes, our risked valuation increases to \$0.88/sh on incorporation of plant feed of 20mt grading at 3.50% TREO over the first 10 years of our modelled mine life.

**Valuation updates:** Subsequent to our last published note, we have revised our valuation for LIN's updated capital structure and lifted Stage 1 throughput rates to 440ktpa in line with indicative guidance (prev. 350ktpa) for an immaterial net impact on valuation. Noting the funding gap for the Tranche 3 acquisition payment has now been resolved, we have lifted our Price Target to 1.1x NAV (prev. 1.0x NAV). Our unrisks valuation is \$0.77/sh at LT NdPr oxide of US\$95/kg excl. VAT.

## Action

**Speculative Buy rating maintained, PT lifted to \$0.70/sh at 1.1x NAV (prev. \$0.65/sh).** LIN remains our highest conviction rare earths exposure; we take the view that a rare earth deposit of such scale and grade with low radionuclide content should inevitably attract strategic interest. Despite jurisdiction risk, the stock remains conceivably cheap in our view, especially when compared to its Australian domiciled development stage peers.

Market Statistics		
Share Price	0.35	A\$/sh
Price Target (1.1x NAV)	0.70	A\$/sh
Valuation (risked)	0.62	A\$/sh
Valuation (unrisks)	0.77	A\$/sh

Capital Structure		
Shares on Issue	1,133	m
Options	97	m
Performance Rights	33	m
<b>Dil. Fully Paid Ordinary</b>	<b>1,263</b>	<b>m</b>

Market Capitalisation	397	A\$m
Enterprise Value	355	A\$m
Cash (Jul'23e)	41	A\$m
Debt (Jul'23e)	Nil	A\$m
ITM options	23	A\$m

Substantial Shareholders		
Asimwe Kabunga		11%
Ven Capital		9%
Rohan Patnaik		6%

Production Forecasts	FY24E	FY25E	FY26E
TREO in concentrate (kt)	0.0	4.7	10.8
NdPr in concentrate (kt)	0.0	0.9	2.2
C1 cost (US\$/kg REO)	0.0	3.2	2.1
AISC (US\$/kg REO)	0.0	4.6	3.3

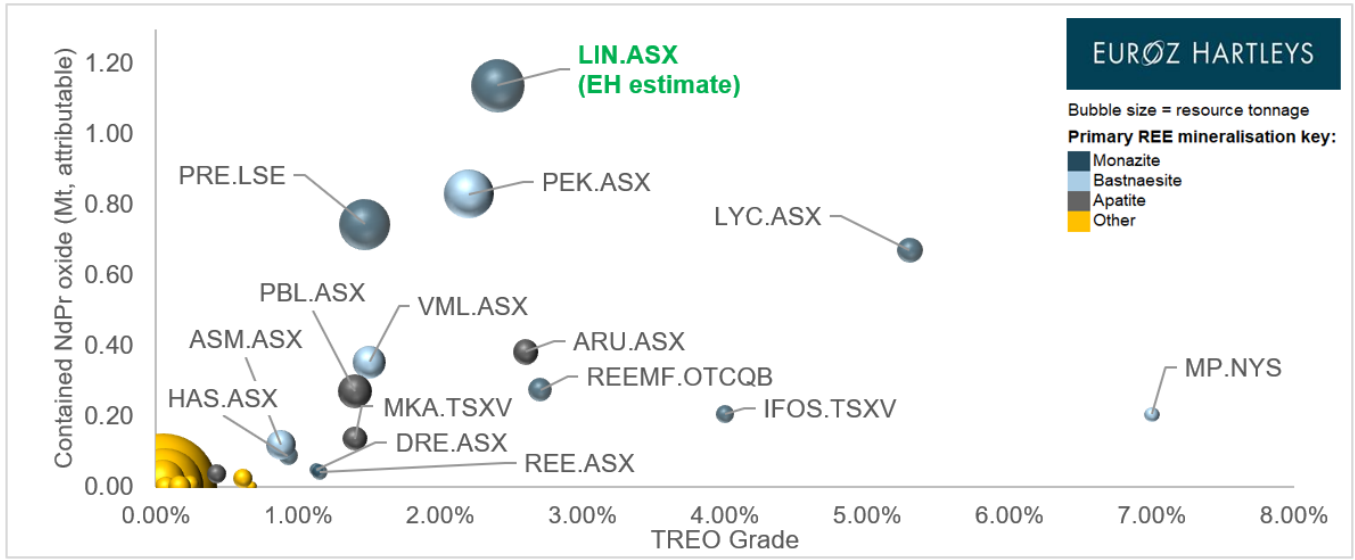
Financials	FY24E	FY25E	FY26E
Revenue	-	80	184
EBITDA	(8)	45	136
Operating CF	(8)	29	85
NPAT	(9)	27	78

## Performance



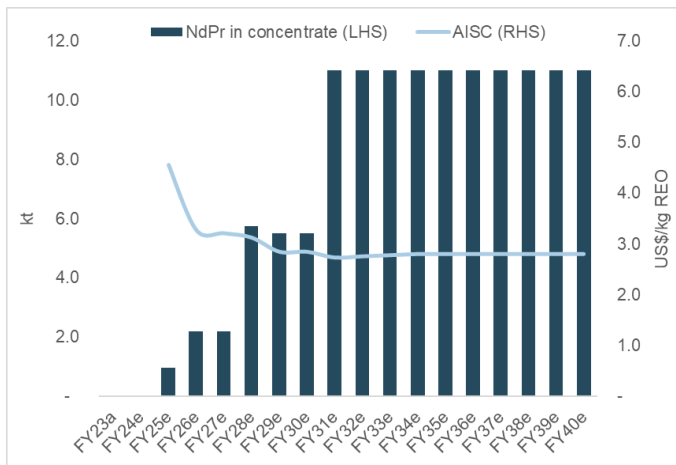
Source: IRESS

Figure 1: The largest hard-rock rare earth deposit ex-China on our estimates, excluding the lower-grade brecciated zone of the deposit



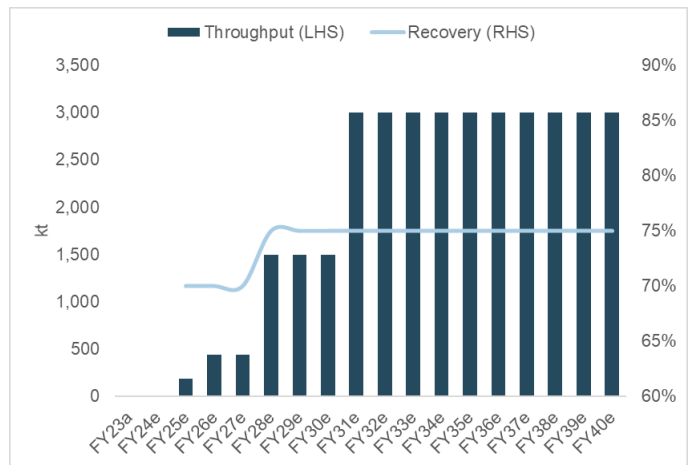
Source: Company reports, Euroz Hartleys estimates

Figure 2: Commencing 'demonstration' scale operations in FY25e



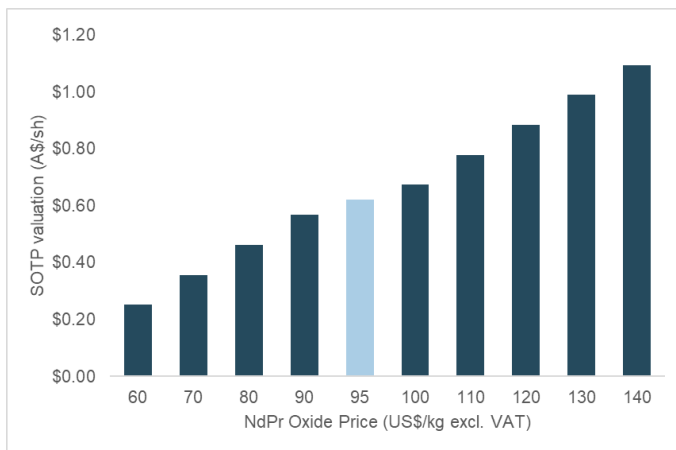
Source: Euroz Hartleys estimates

Figure 3: Ramping up to 3mtpa from FY31e (11kt NdPr/54kt TREO)



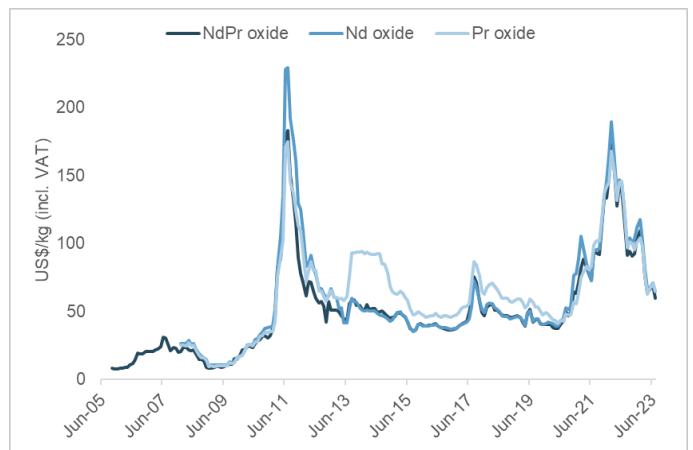
Source: Euroz Hartleys estimates

Figure 4: Leveraged to the NdPr oxide price



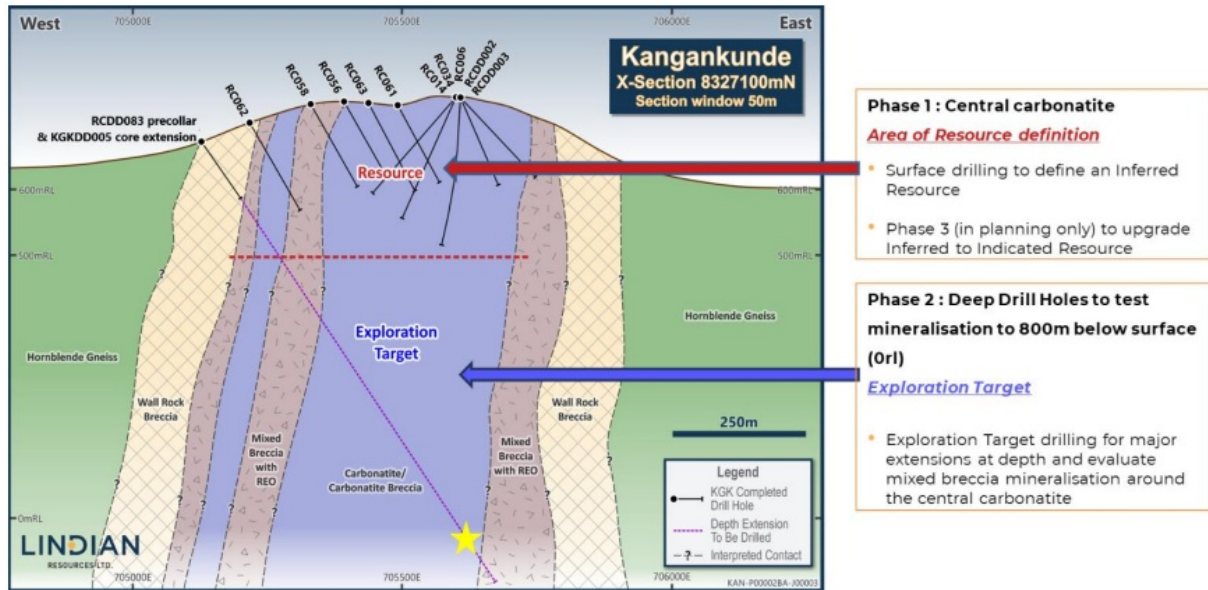
Source: Euroz Hartleys estimates

Figure 5: NdPr oxide prices remain under pressure



Source: Bloomberg

Figure 6: Schematic demonstrating resource definition drilling and exploration target drilling



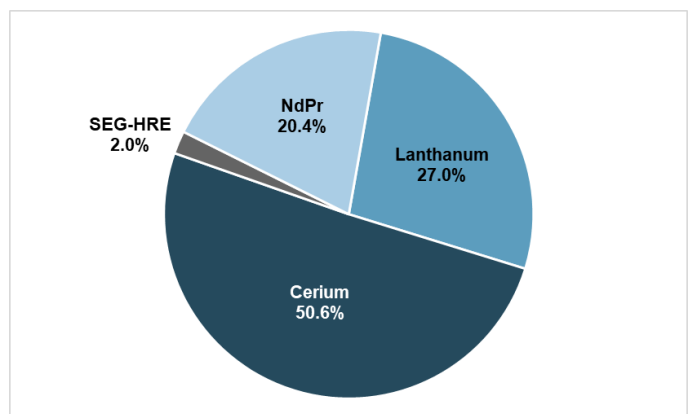
Source: Company reports

Figure 7: Back-of-the-envelope Kangankunde resource estimate

Conceptual resource estimate	
Depth	300 m
Width	450 m
Strike Length	650 m
Volume	87,750,000 m <sup>3</sup>
Density (SG)	2.9 t/m <sup>3</sup>
Mass	254,475,000 mt
Avg. TREO grade	2.40% TREO
Contained TREO	6,107,400 mt
NdPr composition	20% NdPr:TREO
Contained NdPr	1,221,480 mt

Source: Euroz Hartleys estimates

Figure 8: Assumed Kangankunde rare earth assemblage



Source: Company reports, Euroz Hartleys estimates

Figure 9: Modelled KREP operating parameters

	Stage 1	Stage 2	Stage 3
Commencement	MarQ'25	MarQ'28	MarQ'31
Throughput	ktpa 440	1,500	3,000
Strip ratio	w:o 2:1	1.5:1	1.5:1
Head grade	% TREO 3.50%	2.40%	2.40%
NdPr assemblage	NdPr:TREO 20%	20%	20%
Recoveries	% 70%	75%	75%
Concentrate grade	% TREO 60%	60%	60%
Monazite concentrate	ktpa 18.0	45.0	90.0
Concentrate TREO grade	% TREO 60%	60%	60%
TREO in concentrate	ktpa 10.8	27.0	54.0
NdPr in concentrate	ktpa 2.2	5.4	10.8
Net concentrate payability factor	% 65%	65%	65%
Average basket price	US\$/kg REO 12.6	12.6	12.6
AISC	US\$/kg REO 3.7	2.9	2.8
Upfront capex	US\$m 30	200	200

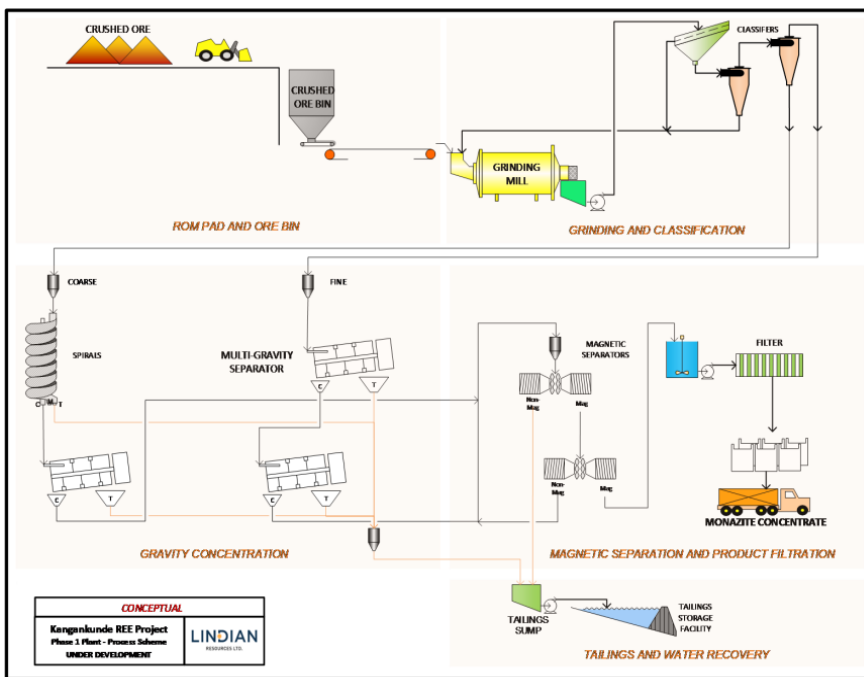
Source: Euroz Hartleys estimates

Figure 10: DCF-backed SOTP valuation, base year: FY24e

	Risking %	Equity %	Unrisked A\$m	Risked A\$m
Kangankunde Rare Earths Project (NPV <sub>12%</sub> )	80%	90%	1,318.1	1,054.5
Guinea Bauxite Projects	100%	100%	35.0	35.0
Corporate Overheads	100%	100%	(50.8)	(50.8)
Tranche 3 & 4 Acquisition Payments			(27.0)	(27.0)
Cash (Jul'23e)			41.3	41.3
Debt (Jul'23e)			-	-
ITM options			23.2	23.2
<b>Total</b>			<b>1,339.8</b>	<b>1,076.1</b>
<b>A\$/sh valuation</b>			<b>0.77</b>	<b>0.62</b>
<b>Issued capital assumptions</b>				
Fully diluted share capital (m)		1,263.4		
Additional shares to be issued (m)		449.2		
Additional equity issue price (A\$/sh)		0.40		
Shares on issue (fully diluted)		1,735.8		
<b>Price Target (A\$/sh, 1.1x risk-weighted NAV, fully diluted)</b>				<b>0.70</b>

Source: Euroz Hartleys estimates

Figure 11: Conceptual Kangankunde process flowsheet



Source: Company reports

Figure 12: LIN Financial Summary

MARKET STATISTICS				
Share Price	0.35 A\$/sh			
Issued Capital				
Fully Paid Ordinary	1,133 m			
Options	97 m			
Performance Rights	33 m			
<b>Total Dil. FPOrd</b>	<b>1,263 m</b>			
Market Cap (FD)	442 A\$m			
Enterprise Value	401 A\$m			
Cash (Jul23e)	41 A\$m			
Debt (Jul23e)	Nil A\$m			

VALUATION (A\$m)				
	Risking	Equity	Unrisked	Risked
KREP (NPV <sub>12%</sub> )	80%	90%	1,318.1	1,054.5
Guinea Bauxite Projects	100%	100%	35.0	35.0
Corporate Overheads	100%	100%	(50.8)	(50.8)
Tranche 3 & 4 Acquisition Payments			(27.0)	(27.0)
Cash (Jul23e)			41.3	41.3
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ITM options			23.2	23.2
<b>Total</b>			<b>1,339.8</b>	<b>1,076.1</b>
<b>A\$/sh valuation</b>			<b>0.77</b>	<b>0.62</b>
<b>Price Target (1.0x NAV)</b>				<b>0.70</b>

MODEL ASSUMPTIONS				
Commodity Price & FX	FY23E	FY24E	FY25E	FY26E
NdPr Oxide (excl. VAT)	90.0	95.0	95.0	95.0
Concentrate Price (US\$/kg REO)	11.9	12.6	12.6	12.6
AUD/USD (x)	0.66	0.71	0.73	0.74
Production				
Throughput (kt)	0	0	190	440
Head grade (% TREO)	na	na	3.50%	3.50%
NdPr:TREO ratio (%)	na	na	20%	20%
Recovery (%)	na	na	70%	75%
Monazite concentrate (kt)	0.0	0.0	7.8	18.0
Concentrate grade (% TREO)	na	na	60%	60%
TREO in concentrate (kt)	0.0	0.0	4.7	10.8
NdPr in concentrate (kt)	0.0	0.0	0.9	2.2
Costs				
C1 costs (US\$/kg REO)	0.0	0.0	3.2	2.1
AISC (US\$/kg REO)	0.0	0.0	4.6	3.3

RATIO ANALYSIS				
	FY23E	FY24E	FY25E	FY26E
OpCF per share (A\$/sh)	(0.01)	(0.01)	0.02	0.07
EPS (A\$/sh)	(0.01)	(0.01)	0.02	0.06
P/E Ratio (x)	-47.4x	-61.3x	19.8x	6.8x
Enterprise Value (A\$m)	417	417	417	417
EV/EBITDA (x)	-69.5x	-49.4x	9.2x	3.1x
EV/EBIT (x)	-37.3x	-48.2x	9.0x	3.4x
Net Debt/(Net Debt + Equity) (%)	-110%	-14%	-150%	-19%
EBIT Margin (%)	na	na	53%	70%
ROE (%)	-56%	-15%	16%	33%
ROA (%)	-18%	-9%	13%	20%

PROFIT & LOSS				
Yr End 30 June (A\$m)	FY23E	FY24E	FY25E	FY26E
(+) Revenue	-	-	80.3	183.5
(+) Interest income	-	-	-	-
(+) Other Income	-	-	-	-
<b>Total Revenue</b>	-	-	<b>80.3</b>	<b>183.5</b>
(-) Costs of production	-	-	(24.9)	(40.9)
(-) Corporate overheads	(6.0)	(8.5)	(10.3)	(6.8)
(-) D&A	(0.2)	(0.2)	(2.4)	(7.9)
(-) Other	(5.0)	-	-	-
<b>EBITDA</b>	<b>(6.0)</b>	<b>(8.5)</b>	<b>45.1</b>	<b>135.8</b>
<b>EBIT</b>	<b>(11.2)</b>	<b>(8.7)</b>	<b>42.8</b>	<b>127.9</b>
(-) Interest Expense	-	-	-	(10.0)
<b>NPBT</b>	<b>(11.2)</b>	<b>(8.7)</b>	<b>42.8</b>	<b>117.9</b>
(-) Minority Interest	-	-	-	-
<b>NPBT (ex-min.)</b>	<b>(11.2)</b>	<b>(8.7)</b>	<b>42.8</b>	<b>117.9</b>
(-) Tax	-	-	(15.9)	(40.4)
<b>NPAT</b>	<b>(11.2)</b>	<b>(8.7)</b>	<b>26.8</b>	<b>77.5</b>

CASH FLOW				
Yr End 30 June (A\$m)	FY23E	FY24E	FY25E	FY26E
<b>Net Profit</b>	<b>(11.2)</b>	<b>(8.7)</b>	<b>26.8</b>	<b>77.5</b>
(+) Working Capital Adj.	-	-	-	-
(+) D&A	0.2	0.2	2.4	7.9
(+) Tax Expense	-	-	15.9	40.4
(-) Tax Paid	-	-	(15.9)	(40.4)
(+/-) Other	(1.0)	-	-	-
<b>Operating Cashflow</b>	<b>(12.0)</b>	<b>(8.5)</b>	<b>29.2</b>	<b>85.4</b>
(-) Capex & Development	-	(42.3)	(17.8)	(141.9)
(-) Exploration	(5.0)	(7.5)	(5.0)	(5.0)
(+/-) Other	(3.8)	(15.2)	(14.1)	-
<b>Investing Cashflow</b>	<b>(8.8)</b>	<b>(64.9)</b>	<b>(36.9)</b>	<b>(146.9)</b>
(+) Equity Issues	29.1	70.0	100.0	-
(+) Loan Drawdown	-	-	-	100.0
(-) Loan Repayment	-	-	-	-
(+) Other	-	-	-	-
<b>Financing Cashflow</b>	<b>29.1</b>	<b>70.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Net Cashflows</b>	<b>8.4</b>	<b>(3.4)</b>	<b>92.3</b>	<b>38.5</b>
(+/-) FX Adj.	-	-	-	-
<b>BoP Cash Balance</b>	<b>2.2</b>	<b>10.5</b>	<b>7.1</b>	<b>99.4</b>
(+/-) Net Cashflows	8.4	(3.4)	92.3	38.5
(+/-) FX Adj.	-	-	-	-
<b>EOP Cash Balance</b>	<b>10.5</b>	<b>7.1</b>	<b>99.4</b>	<b>138.0</b>

BALANCE SHEET				
Yr End 30 June (A\$m)	FY23E	FY24E	FY25E	FY26E
Assets				
Cash	10.5	7.1	99.4	138.0
Current Receivables	0.2	0.2	0.2	0.2
Other Current Assets	0.1	0.1	0.1	0.1
Non-Current Assets	50.5	92.8	107.1	240.3
<b>Total Assets</b>	<b>61.4</b>	<b>100.2</b>	<b>206.8</b>	<b>378.6</b>
Liabilities				
Borrowings	-	-	-	100.0
Current Accounts payable	0.8	0.8	0.8	0.8
Other Liabilities	40.5	40.5	40.5	40.5
<b>Total Liabilities</b>	<b>41.3</b>	<b>41.3</b>	<b>41.3</b>	<b>141.3</b>
<b>Net Assets</b>	<b>20.1</b>	<b>58.9</b>	<b>165.5</b>	<b>237.3</b>

Source: Euroz Hartleys Research

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Lindian Resources Limited (LIN.ASX) | Price A\$0.35 | Target price A\$0.70 | Recommendation Speculative Buy;

*Price, target price and rating as at 12 July 2023 (\* not covered)*

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