

INITIAL IMPRESSION | PUBLISHED ON 11 APRIL 2023

First Pass Metallurgy Results

LIN.ASX | LINDIAN RESOURCES LIMITED | RARE EARTHS | DEVELOPMENT & EXPLORATION
PRICE
A\$0.28/sh
TARGET PRICE
A\$0.55/sh
 (UNCHANGED)

RECOMMENDATION
SPECULATIVE BUY
 (UNCHANGED)

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Event

LIN has released scoping metallurgical test work results from the Kangankunde Rare Earths Project (KREP).

Impact

An encouraging starting point. LIN's current metallurgy program is the first undertaken on the KREP since pilot-scale metallurgical test work completed by the French geological survey (BRGM) across 1987-1990, under which a monazite concentrate grading at 60% TREO with a recovery of 60% TREO was achieved. Recoveries from rougher and cleaner stages for coarse-grained material ranged from 60%-90% TREO under LIN's phase one program, while fine-grained material has been tested for amenability to multi-gravity separation, which has not previously been evaluated for the recovery of rare earth mineralisation at the KREP. Initial results suggest higher recoveries of ~70% TREO are achievable with the addition of a multi-gravity separator, while an increase in the corresponding concentrate grade of ~52% TREO (toward ~60% TREO) is guided via the incorporation of wet high intensity magnetic separation (WHIMS) into the KREP flowsheet. Preliminary scoping results are based on ~200kg of surface grab samples grading at 8.6% TREO, with sample mass by classification not provided. These results will form the basis for a more comprehensive metallurgical test work program, which is currently underway.

EH view: Markets often always assume metallurgical test work results will be positive, and in turn are often non-events, or alternatively negative in the event of missed expectations. In this case, historical test work undertaken by BRGM has provided a tangible starting point with respect to metallurgical recoveries and concentrate grades achievable at the KREP. A 'baseline' recovery result of ~70% TREO outlined in this morning's release is a comfortable beat on historical pilot-scale recoveries, which the company guides to improve upon through optimisation of the multi-gravity separation circuit and feed. Noting that i) LIN is targeting an uplift in recoveries to ~80% TREO, along with ii) the very early stage of the development of the KREP process flowsheet, we have left our previously modelled recovery and concentrate grade assumptions unchanged (Fig. 1) pending the outcomes of further metallurgical test work.

Action

Speculative Buy rating maintained, Price Target unchanged at \$0.55/sh (1.0x risk-weighted NAV).

Catalysts

We await the upcoming maiden JORC 2012 Inferred MRE release as a key catalyst for a re-rating. Remaining assay results from LIN's Phase 1 drill program are due for release across JunQ'23, while diamond drilling under the Phase 2 drill program (2x ~1,000m diamond holes) is due to commence imminently, which we also view as a key catalyst given the potential for deeper diamond drilling to materially extend our modelled resource depth assumption. More broadly, a potential improvement in both rare earth sector sentiment and prices may provide tailwinds in the near term.

Market Statistics		
Share Price	0.28	A\$/sh
Price Target (1.0x NAV)	0.55	A\$/sh
Valuation (risked)	0.55	A\$/sh
Valuation (unrisked)	0.69	A\$/sh

Capital Structure		
Shares on Issue	1,014	m
Options	108	m
Performance Rights	33	m
Dil. Fully Paid Ordinary	1,156	m

Market Capitalisation	279	A\$m
Enterprise Value	270	A\$m
Cash (Mar'23e)	9.2	A\$m
Debt (Mar'23e)	Nil	A\$m
ITM options	3.6	A\$m

Substantial Shareholders		
Asimwe Kabunga		12%
Ven Capital		10%
Rohan Patnaik		7%

Production Forecasts	FY24	FY25	FY26
TREO in concentrate (kt)	0.0	3.7	8.6
NdPr in concentrate (kt)	0.0	0.7	1.7
C1 cost (US\$/kg REO)	0.0	3.7	2.3
AISC (US\$/kg REO)	0.0	5.2	3.6

Financials	FY24	FY25	FY26
Revenue	-	63	146
EBITDA	(8)	31	104
Operating CF	(8)	19	63
NPAT	(9)	17	55

Performance



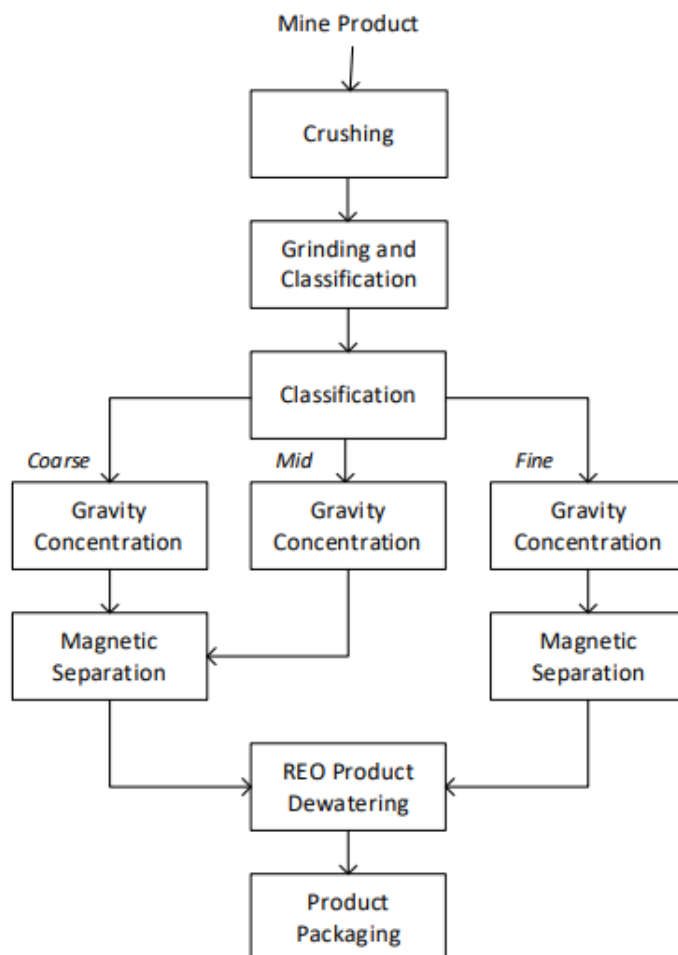
Source: IRESS

Figure 1: Modelled KREP operating parameters

		Stage 1	Stage 2	Stage 3
Commencement		MarQ'25	MarQ'28	MarQ'31
Throughput	ktpa	350	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	14.3	45.0	90.0
Concentrate TREO grade	% TREO	60%	60%	60%
TREO in concentrate	ktpa	8.6	27.0	54.0
NdPr in concentrate	ktpa	1.7	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	4.1	2.9	2.8
Upfront capex	US\$m	30	200	200

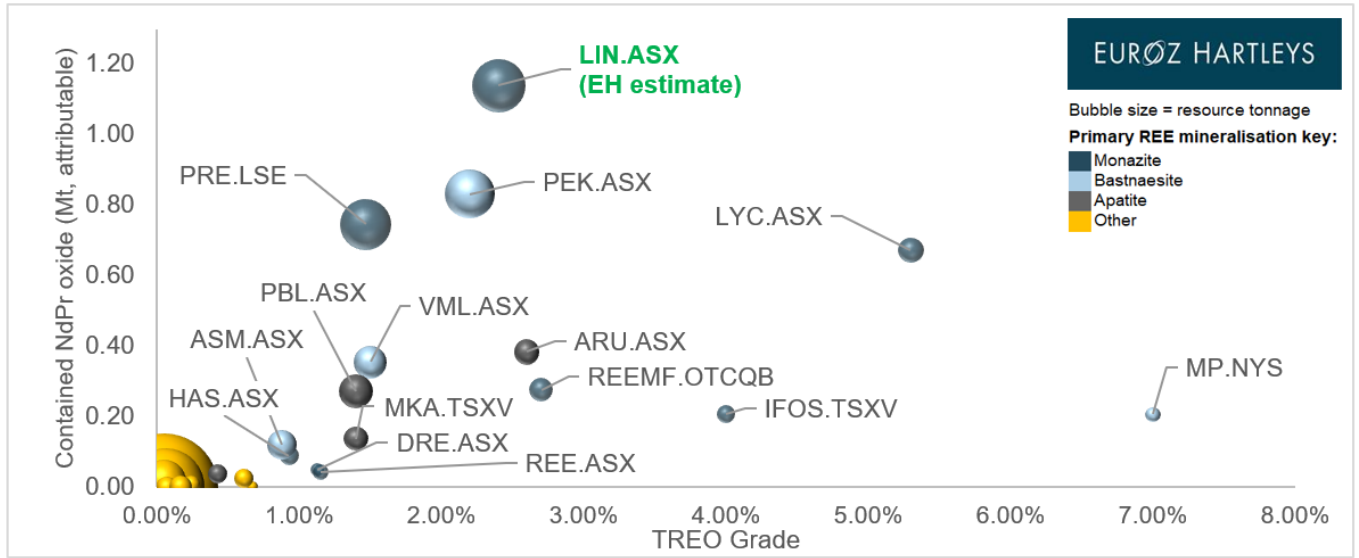
Source: Euroz Hartleys estimates

Figure 2: Process scheme under development for Phase 1 of the KREP



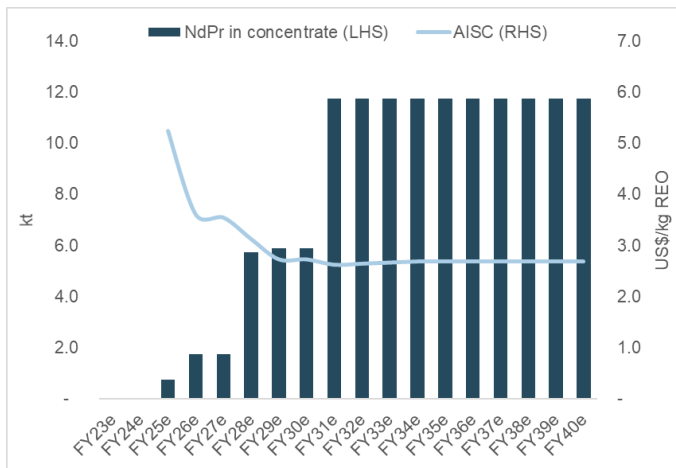
Source: Company reports

Figure 3: The largest hard-rock rare earth deposit ex-China on our estimates, excluding the lower-grade brecciated zone of the deposit



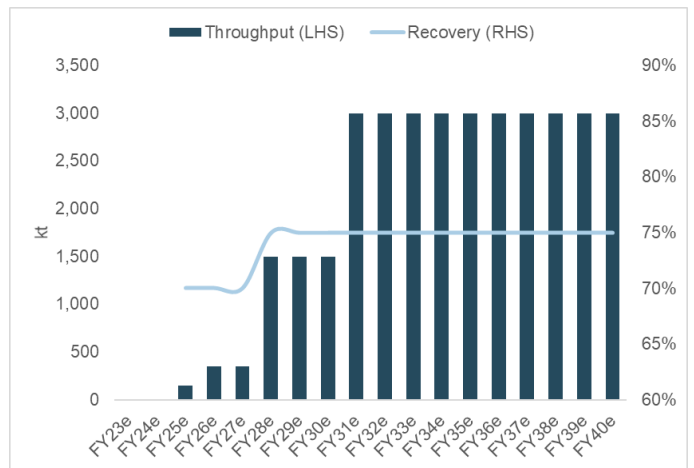
Source: Company reports, Euroz Hartleys estimates

Figure 4: Commencing 'demonstration' scale operations in FY25e



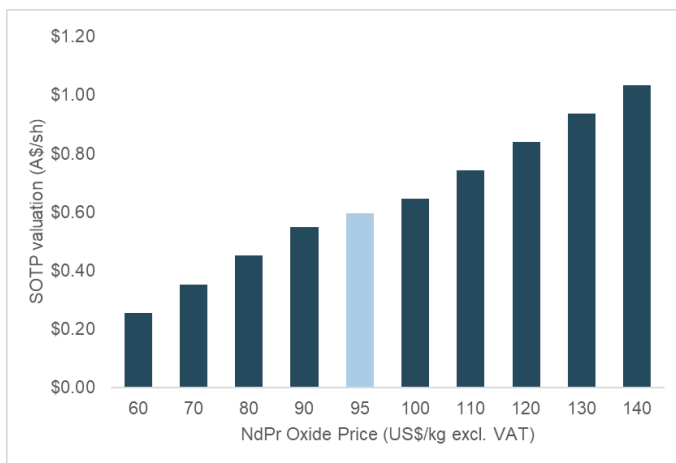
Source: Euroz Hartleys estimates

Figure 5: Ramping up to 3mtpa from FY31e (11kt NdPr/54kt TREO)



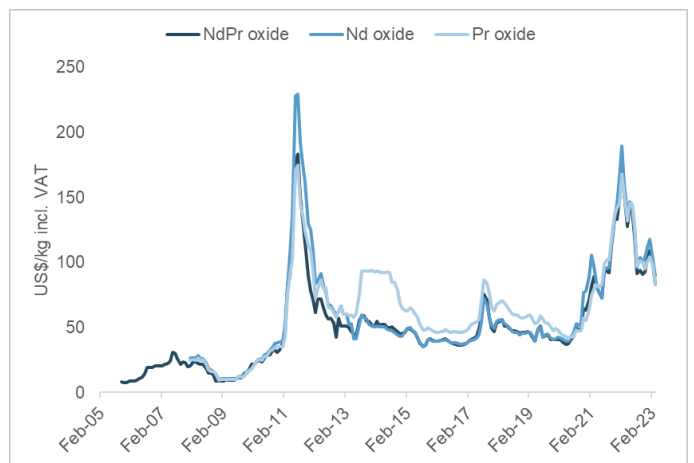
Source: Euroz Hartleys estimates

Figure 6: Leveraged to the NdPr oxide price



Source: Euroz Hartleys estimates

Figure 7: NdPr prices remain elevated despite recent weakness



Source: Bloomberg

Figure 8: Financial Summary

MARKET STATISTICS				
Share Price	0.28 A\$/sh			
Issued Capital				
Fully Paid Ordinary	1,014 m			
Options	108 m			
Performance Rights	33 m			
Total Dil. FPOrd	1,156 m			
Market Cap (FD)	318 A\$m			
Enterprise Value	309 A\$m			
Cash (Mar'23e)	9.2 A\$m			
Debt (Mar'23)	Nil A\$m			

VALUATION (A\$m)				
	Risking	Equity	Unrisked	Risked
KREP (NPV _{12%})	80%	90%	1,286.0	1,028.8
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 (Mar'23e)			9.2	9.2
Debt (Mar'23e)			-	-
ITM options			3.6	3.6
Total			1,256.0	998.8
A\$/sh valuation			0.69	0.55
Price Target (1.0x NAV)				0.55

MODEL ASSUMPTIONS				
Commodity Price & FX				
	2023F	2024F	2025F	2026F
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	150	350
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	6.1	14.3
Concentrate grade (% TREO)	na	na	60%	60%
TREO in concentrate (kt)	0.0	0.0	3.7	8.6
NdPr in concentrate (kt)	0.0	0.0	0.7	1.7
Costs				
C1 costs (US\$/kg REO)	0.0	0.0	3.7	2.3
AISC (US\$/kg REO)	0.0	0.0	5.2	3.6

RATIO ANALYSIS				
	2023F	2024F	2025F	2026F
OpCF per share (A\$/sh)	(0.01)	(0.01)	0.02	0.05
EPS (A\$/sh)	(0.01)	(0.01)	0.01	0.05
P/E Ratio (x)	-23.7x	-30.7x	15.8x	4.8x
Enterprise Value (A\$m)	257	257	257	257
EV/EBITDA (x)	-42.8x	-30.4x	8.3x	2.5x
EV/EBIT (x)	-22.9x	-29.7x	9.0x	2.8x
Net Debt/(Net Debt + Equity) (%)	-95%	-11%	-133%	-2%
EBIT Margin (%)	na	na	45%	66%
ROE (%)	-60%	-15%	11%	27%
ROA (%)	-19%	-9%	9%	16%

PROFIT & LOSS				
Yr End 30 June (A\$m)	2023F	2024F	2025F	2026F
(+) Revenue	-	-	63.4	146.0
(+) Interest income	-	-	-	-
(+) Other Income	-	-	-	-
Total Revenue	-	-	63.4	146.0
(-) Costs of production	-	-	(22.3)	(35.1)
(-) Corporate overheads	(6.0)	(8.5)	(10.3)	(6.8)
(-) D&A	(0.2)	(0.2)	(2.4)	(7.9)
(-) Other	(5.0)	-	-	-
EBITDA	(6.0)	(8.5)	30.9	104.2
EBIT	(11.2)	(8.7)	28.5	96.2
(-) Interest Expense	-	-	-	(10.0)
NPBT	(11.2)	(8.7)	28.5	86.2
(-) Minority Interest	-	-	-	-
NPBT (ex-min.)	(11.2)	(8.7)	28.5	86.2
(-) Tax	-	-	(11.6)	(30.9)
NPAT	(11.2)	(8.7)	16.9	55.3

CASH FLOW				
Yr End 30 June (A\$m)	2023F	2024F	2025F	2026F
Net Profit	(11.2)	(8.7)	16.9	55.3
(+) Working Capital Adj.	-	-	-	-
(+) D&A	0.2	0.2	2.4	7.9
(+) Tax Expense	-	-	11.6	30.9
(-) Tax Paid	-	-	(11.6)	(30.9)
(+/-) Other	(1.0)	-	-	-
Operating Cashflow	(12.0)	(8.5)	19.2	63.3
(-) Capex & Development	-	(42.3)	(17.8)	(141.9)
(-) Exploration	(5.0)	(7.5)	(5.0)	(5.0)
(+/-) Other	(3.8)	(15.2)	(14.1)	-
Investing Cashflow	(8.8)	(64.9)	(36.9)	(146.9)
(+) Equity Issues	27.6	70.0	100.0	-
(+) Loan Drawdown	-	-	-	100.0
(-) Loan Repayment	-	-	-	-
(+) Other	-	-	-	-
Financing Cashflow	27.6	70.0	100.0	100.0
Net Cashflows	6.9	(3.4)	82.3	16.4
(+/-) FX Adj.	-	-	-	-
BoP Cash Balance	2.2	9.0	5.6	88.0
(+/-) Net Cashflows	6.9	(3.4)	82.3	16.4
(+/-) FX Adj.	-	-	-	-
EOp Cash Balance	9.0	5.6	88.0	104.3

BALANCE SHEET				
Yr End 30 June (A\$m)	2023F	2024F	2025F	2026F
Assets				
Cash	9.0	5.6	88.0	104.3
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
Total Assets	59.9	98.7	195.3	344.9
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
Total Liabilities	41.3	41.3	41.3	141.3
Net Assets	18.6	57.4	154.1	203.6

Source: Euroz Hartleys Research

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Lindian Resources Limited (LIN.ASX) | Price A\$0.28 | Target price A\$0.55 | Recommendation Speculative Buy;

Price, target price and rating as at 11 April 2023 (not covered)*

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