



Prospect Resources Ltd (PSC.ASX)

Made better, priced better

Event:

- Direct optimised feasibility study (OFS); PT change.

Investment Highlights:

- **PSC's Direct OFS for Arcadia delivered superior metrics**, by virtue of enhanced efficiency in capex and operating costs, and bringing forward cash flows sooner from a 2.4Mtpa operation at the outset, rather than the 1.2Mtpa +1.2Mtpa staged expansion. Highlights include post-tax NPV₁₀ up 128% to US\$929M; IRR 60% vs 34% for Staged; and average EBITDA up 80% to US\$175M. Unsurprisingly, PSC commented that the Direct OFS validated its expectations that it would be more compelling than the Staged OFS.
- **The Direct OFS also employed revised lithium pricing**, given the acceleration of momentum in lithium markets and frequently revised outlooks. PSC adopted a conservative approach by using the mid-point between Roskill's new price forecasts and those used in the Staged OFS. We estimate the increase in petalite and spodumene prices contributed US\$301M delta in NPV over the Staged OFS, with the change in capex, lower unit costs, and direct processing of 2.4Mtpa added a delta of US\$220M.
- **NPV/pre-production capex is now 4.8x**. Pre-production capex increases to US\$192M vs US\$140M of Staged. However LOM capex for Direct was lower (US\$228M vs US\$251M) due to efficiency of scaling from the outset.
- **PSC reiterated that the partnering process for Arcadia is on track**. Non-binding proposals were received in November, and we still expect a conclusion by the end CY21.
- **We have revised our own lithium forecasts**: we upgrade LT lithium carbonate (up 13% to US\$14,640/t), spodumene (up 7% to US\$846/t), and technical petalite (up 3% to US\$1,065/t). We believe our forecasts are within consensus, but more conservative than the prices used in the Direct OFS.

Earnings and Valuation:

- **We revise up our forecast earnings for PSC from FY26e onwards**, based mostly on our increased lithium price forecasts, as well as lower operating costs and capex. Our FY24e and FY25e earnings have slightly reduced due to factoring in higher waste strip initially than for LOM.
- **Our risked valuation (0.6 x NPV₁₀) of PSC increases to \$1.06 from \$0.82**, due to: 1) Upgrade in long-term earnings from our increased petalite and spodumene prices; and 2) Assuming a less dilutive future equity raising, given rise in the share price since our last report. Our unrisked valuation of Arcadia (100%) is US\$619M, which is less than the OFS' US\$929M, due to our lower LT price assumptions: FSBe technical petalite US\$1,065/t vs the OFS LOM average of US\$1,339/t, and spodumene US\$846/t vs the OFS' US\$892/t.

Recommendation:

- **We maintain our Buy and raise our 12-month PT to \$1.06 from \$0.82**, based on our risked valuation. The Direct OFS reinforces our view that Arcadia is a highly attractive project, and PSC shares a compelling Buy, even under our relatively conservative pricing assumptions. Major catalysts are: 1) Outcome of partnering process; 2) Funding; 3) FID; 4) Construction start; and 5) Corporate activity.

Disclosures

The analyst owns 71,000 PSC shares.
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd), own 792,515 PSC shares.
Cranport Pty Ltd owns 2,650,000 PSC shares.
Refer details end of report.

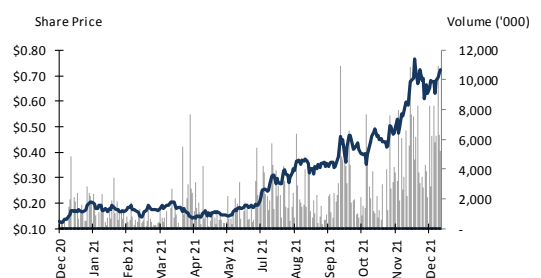
Foster Stocking acted as Joint Lead Manager to the \$18M placement of 45M PSC shares at \$0.40 in October 2021, for which it received fees.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$1.06			
Previous	\$0.82			
Share price (A\$)	\$0.725			
ASX code	PSC			
52 week low-high	\$0.125-\$0.78			
Valuation - risked (A\$/share)	\$ 0.82			
Methodology	risked NPV			
Capital structure				
Shares on Issue (M)	429			
Market cap (A\$M)	311			
Net cash (debt) (A\$M)	26			
Options (M)	41			
Diluted EV (A\$M)	315			
Ave daily volume ('000)	2,190			
Earnings	FY21a	FY22e	FY23e	FY24e
Sales	0	0	0	64
EBITDA adj	-3	-6	-6	19
NPAT pre minorities	-3	-5	-11	2
NPAT attrib.	-3	-5	-11	2
EPS adj. \$*	-0.01	-0.01	-0.01	0.00
PE x	nm	nm	nm	nm
EV/EBITDA x	nm	nm	nm	30.7

* Adj =underlying

Susbtantial shareholders	%
Eagle Eye Asset Holdings Pte Ltd	11.4%
Board	
Mark Wheatley	Non-Executive Chairman
Sam Hosack	Managing Director
Duncan (Harry) Greaves	Executive Director
Gerry Fahey	Non-Executive Director
Zivanayi (Zed) Rusike	Non-Executive Director
Dev Shetty	Non-Executive Director
HeNian Chen	Non-Executive Director

Share price graph



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