



Prospect Resources Ltd (PSC.ASX)

Arcadia sale closes, exploration still for free

Event:

- **Sale of Arcadia.**

Investment Highlights:

- **Arcadia sale completed, US\$342.9M net proceeds.** PSC yesterday announced sale of Arcadia to Huayou completed on 20 April, with net proceeds US\$342.9M (A\$461M) received, after payment of Zimbabwe CGT (US\$26.8M) and Sinomine break-fee (US\$8M). This is in-line with our previous estimate of US\$340M.
- **Distribution of A\$440-\$450M, or \$0.94-\$0.96/diluted share.** PSC narrowed its guidance on cash to be distributed and retained. It's seeking to return A\$440M-450M, or \$0.94-\$0.96/diluted share (vs our prior estimate \$0.92), to shareholders. The distribution will likely include a capital reduction and unfranked dividend component, subject to shareholder approval for any capital reduction, and final ATO ruling. Payment to shareholders is soon after end June 2022.
- **Cash of A\$30-\$40M to be retained.** PSC will retain \$30-\$40M cash (in line with our prior estimate \$35M), inclusive \$11M cash from exercise of 36M options, equating to \$0.064-\$0.086/diluted share.
- **Cash backing of \$1.03/diluted share.** PSC's cash backing (comprising cash to be distributed and retained) is \$1.03/share.
- **PSC 2.0 - Focus to be on battery metals and applying Africa expertise.** The company will utilise the cash retained to develop battery metals projects, stating its primary focus being on Zimbabwe, and second other Sub-Saharan Africa (e.g. Namibia, Botswana).
- **Africa focus makes perfect sense for three key reasons.** 1) Battery metals interest in attractive jurisdictions (eg Australia, North and South America) is a crowded space, but Africa is less so, presenting project opportunities at lower cost; 2) PSC management has demonstrated expertise in exploring, developing, and progressing a project to commercial appeal in Africa; and 3) PSC already has nearology exploration with its own Step Aside lithium project, which is adjacent to Arcadia. We expect lithium will be the battery metal of preference.

Earnings and Valuation:

- **We make no material change to earnings or our valuation of \$1.09/share, given sale proceeds are in-line with our estimate.** Our valuation is underpinned by PSC cash backing of \$1.03/share, plus \$0.06/share mostly for the lithium nearology valuation for its Step Aside project.

Recommendation:

- **We maintain our Buy and 12-month price target of \$1.09** based on our valuation. We estimate the current share price offers PSC's existing exploration assets in Zimbabwe for free, including management experience that can add value to new projects within Zimbabwe and globally.
- **Share price catalysts** are: 1) Exploration from existing lithium projects in Zimbabwe; 2) Shareholder approvals; 3) Distribution of Arcadia proceeds; and 4) New battery metal projects M&A.

Disclosures

The analyst owns 71,000 PSC shares.
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd), own 71,000 PSC shares.
Cranport Pty Ltd does not own PSC securities.
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	\$1.09
Previous	\$1.09
Share price (A\$)	\$0.975
ASX code	PSC
52 week low-high	\$0.135-0.99
Valuation - risked (A\$/share)	\$ 1.09
Methodology	risked NPV

Capital structure

Shares on Issue (M)	431
Market cap (A\$M)	420
Net cash (debt) (A\$M)	481
Options (M)	36
Diluted EV (A\$M)	-26
Ave daily volume ('000)	4,168

Earnings	FY21a	FY22e	FY23e	FY24e
Sales	0	0	0	0
EBITDA adj	-3	-6	-6	-6
NPAT pre minorities	-3	-5	-5	-5
NPAT attrib. adj.	-3	-5	-5	-6
NPAT reported	-3	443	-5	-6
EPS adj. \$	-0.01	-0.01	-0.01	-0.01
Dividend \$	0.00	1.00	0.00	0.00
PE x	nm	nm	nm	nm
Yield %	nm	102%	nm	nm

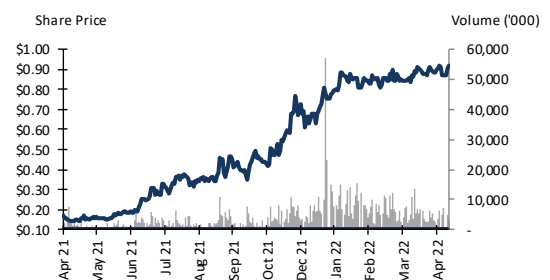
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Substantial shareholders	%
Weiss Asset Management	13.2%
Eagle Eye Asset Holdings Pte Ltd	11.4%
JP Morgan	5.3%

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



Analyst: Mark Fichera
mark.fichera@fostock.com.au

+612 9993 8162