



Prospect Resources Ltd (PSC.ASX)

Step-up for Step Aside

Event:

- **Drilling results; quarterly report; price-target change.**

Investment Highlights:

- **Phase 3 program provides economic-like intercepts.** The company's recent campaign at Step-Aside (90% PSC) included two holes at the Win-Bin zone – south-eastern corner of tenement - returned wide intercepts at shallow depth. Assays for one of the holes yielded 23.1m at 1.03% Li₂O from only 45m, including 11m at 1.51% Li₂O from 54m. Assay from the other hole – a 40m intercept – is pending. The pegmatite is estimated to dip at 60°. The company visibly logged coarse spodumene crystals.
- **Follow-up program accelerated.** Two rigs are now onsite to complete the Phase 3 program, which is just over 60% complete. The company believes the newly identified pegmatite may be a feeder zone for the previously drilled mineralisation in the northern part of Step Aside. Further drilling will follow up Win-Bin to test orientation and extent of the mineralised pegmatite.
- **Potential for nearby commercialisation.** Step Aside lies only 8km north of the Huayou-owned Arcadia mine (purchased from PSC), providing an option where PSC does not need to develop Step Aside as a stand-alone project, but can commercialise it either via sale or some form of alliance. We understand that the Arcadia plant has excess capacity, especially for spodumene feed to complement its petalite.
- **Omaruru lithium progressing.** Phase I drilling has been completed at Omaruru (PSC 40%, earning to 51%) including at Brockmans and Karlsbrunn. Highlights from Karlsbrunn displayed satisfactory grades and widths from surface, while drilling at Brockmans failed to extend the zone laterally. Phase 2 geochem is ongoing, with new anomalies identified at Karlsbrunn NE, and Phase 2 drilling is expected to start late October.
- **Keysa rare earths licence delay.** PSC has an option agreement with Antler Gold Inc (ANTL:TSXV) to acquire 51% of the latter's Keysa Rare Earths Project in Zambia. A condition precedent is grant of exploration licence which has yet to be received.
- **Still well-funded.** The company had \$23.7M cash end September, still ample headroom to advance its projects as well as participate in further project M&A.

Earnings and Valuation:

- **Valuation reduced on sector deflation.** Average EV of globally listed lithium explorers pre-Resource (excluding Azure Minerals and Wildcat Resources) is A\$29M, having de-rated over 2023. Using mean EV and applying 30% premium due to company's 1) suite of projects; 2) ample cash, and 3) management track record, we derive a valuation of \$0.14/share.

Recommendation:

- **We maintain our Buy and cut our 12-month price target to \$0.14 from \$0.19, based on pre-Resource peer valuation.** Catalysts include: 1) Exploration progress on Omaruru, Step Aside, and Keysa; 2) Maiden JORC Resources at Omaruru or Step Aside; and 3) Further lithium project M&A.

Disclosures

The analyst owns 60,400 PSC shares.

Refer details end of report.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$0.140
Previous	\$0.19
Share price (A\$)	\$0.089
ASX code	PSC
52 week low-high	\$0.071-0.245
Valuation - risked (A\$/share)	\$ 0.140
Methodology	EV comparable

Capital structure

Shares on Issue (M)	462
Market cap (A\$M)	41
Net cash (debt) (A\$M)	24
Diluted EV (A\$M)	17
Ave daily volume ('000)	1,349

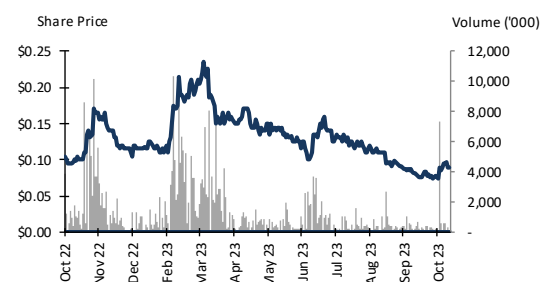
Substantial shareholders

	%
Eagle Eye Asset Holdings Pte Ltd	15.3%
Mitsubishi UFJ Financial Group Inc	6.8%
Morgan Stanley and subsidiaries	6.8%
JP Morgan Chase & Co and its affiliates	5.4%

Board

Mark Wheatley	Non-Executive Chairman
Sam Hosack	Managing Director
Gerry Fahey	Non-Executive Director
Zivanayi (Zed) Rusike	Non-Executive Director
Gaurav Gupta	Non-Executive Director
HeNian Chen	Non-Executive Director

Share price graph



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