

24 June 2019

ASX CODE: CXO
Speculative Buy
Pro-Forma Capital Structure

Sector	Materials
Share Price (A\$)	0.043
Fully Paid Ordinary Shares (m)	633.6
Performance Rights (m)	9.7
Options (ex 7.0c, exp 30/09/20) (m)	1.5
Options (ex 8.0c, exp 30/01/21) (m)	4.0
Options (ex 8.0c, exp 05/09/22) (m)	10.0
Market Capitalisation (undil) (\$m)	28.5
Share Price Year High-Low (A\$)	0.105-0.034
Pro-forma Cash (A\$m)	10.0

Directors & Management

Greg English	Non-Executive Chairman
Stephen Biggins	Managing Director
Heath Hellewell	Non-Executive Director
Blair Duncan	GM—Project Development
David Rawlings	Exploration Manager
Jarek Kopias	Chief Financial Officer

Major Shareholders

Ta Hua Intl Inv & DVMLC	10.1%
Mining Value Fund PL	4.3%
CS Third Noms PL	1.6%

Analyst

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Share Price Performance


Core Lithium Limited

Lithium Royalty deal provides \$8.1m for Finniss development
Royalty deal provides development/exploration funding for Finniss

- Speciality royalty company Lithium Royalty Corporation (LRC) has agreed to provide A\$8.125 million in two tranches in return for the right to receive a 2.5% of gross revenue royalty on the project. A\$6.88 million will be released on execution and held in escrow pending FIRB approval (Stage 1-timing 8 weeks), with A\$1.25 million conditional on **CXO** outlining a 15 million tonne JORC Mineral Resource at Finniss and achieving continuous operation of the processing plant for more than 14 consecutive days (Stage 2).
- The Royalty rate is 2.115% on Stage 1 increasing to 2.50% on achievement of the Stage 2 milestone and payment of the balance of the purchase price by **LRC**.
- Funds will be used to progress Finniss towards development, near term resource growth and exploration activity.

DFS delivers compelling metrics

- The DFS published in April 2019 returned a healthy NPV₁₀ of \$114 million with an IRR of 80% based on a 3.5 year mine life treating 2.6Mt of ore for 481,018 tonnes of concentrate at a head grade of 1.42%. CAPEX at \$73 million is modest and assumes a US\$687/tonne spodumene concentrate price and a USD:AUD exchange rate of US\$0.70. We note that prices have slipped to around US\$550/tonne however the A\$ spodumene concentrate price has increased from \$981 to \$999/t over this period.
- While the mine life is short, logistics (rail, access to shipping facilities) are excellent in comparison to peers and we are optimistic that near term exploration will be successful within the license areas (covering an area of around 500km²) in pushing the mine life out beyond 5 years.
- In late May 2019, **CXO** also indicated Finniss could produce 200K to 250K tonnes of fine lithium as a by-product at a very low additional cost. Given projected pricing of US\$50 to US\$75/t, and recent end user interest, **RMR** consider this has an excellent chance of adding to the revenue stream.

Lithium prices remains under pressure

- 2019 to 2020 looks like the market will remain in oversupply driven by Australia-China spodumene conversion capacity. Current lithium prices do make a large proportion of lithium resources look attractive with much of the supply surplus coming from hard rock lithium producers. We anticipate prices to recover moving into late 2020.



Source: Morgan Stanley Research, CRU, Roskill

Near-Term Price Catalysts

- Price catalysts include further drilling and resource upgrades (including conversion of the majority of 5-8Mt of JORC Resources to Reserves), permitting, offtake agreements, project financing, updates on fine lithium products and possible extensions to mine life beyond 2024.

Action and Recommendation

- RMR** is maintaining its speculative buy on this potentially near term, low CAPEX/OPEX producer with favourable logistics and relatively low CAPEX giving this project an excellent chance of making it through to production. The primary caveat remains the market for lithium which has been under recent pressure however we anticipate spodumene concentrate prices to recover moving into late 2020. **RMR** intend to publish more detailed commentary later in 2019.

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RM Research Recommendation Categories

Care has been taken to define the level of risk to return associated with a particular company. Our recommendation ranking system is as follows:

Buy	Companies with 'Buy' recommendations have been cash flow positive for some time and have a moderate to low risk profile. We expect these to outperform the broader market.
Speculative Buy	We forecast strong earnings growth or value creation that may achieve a return well above that of the broader market. These companies also carry a higher than normal level of risk.
Hold	A sound well managed company that may achieve market performance or less, perhaps due to an overvalued share price, broader sector issues, or internal challenges.
Sell	Risk is high and upside low or very difficult to determine. We expect a strong underperformance relative to the market and see better opportunities elsewhere.

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