

Equity Research



Vulcan Energy Resources Limited

Update

“Indispensable player on path to commercialize Lithium in Europe”

19 January 2021



Investment recommendation:

Buy

(previous: Buy)

**Price target: AUD 12.95 /
EUR 8.20**

(previous: AUD 2.55 / EUR 1.55)

Stock exchange: Australian Stock Exchange

Reuters: VUL.AX

Bloomberg: VUL:AU

Dual listing

Stock exchange: Frankfurt Stock Exchange

Reuters: 6KO.DE

Bloomberg: 6KO:GR

ISIN/WKN: AU0000066086/A2PV3A

Market capitalisation: AUD 866.11 million
EUR 538.58 million

Number of shares, undiluted: 87,57 million

Shareholder structure:

Top 20 shareholders ~50%

Management (undiluted) ~18%



Closing price ASX (19 January):

AUD 9.890

High/low ASX 52 weeks:

AUD 14.200 / AUD 0.150

Opening price Frankfurt (19 January):

EUR 6.15

High/low Frankfurt 52 weeks:

EUR 6.300 / EUR 0.076

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Vulcan Energy Resources Limited

Indispensable player on path to commercialize Lithium in Europe

- Headstart in race to commercialize Lithium: Preliminary Feasibility Study (PFS) brings about leading and unique position in Europe
- JORC-compliant resource estimate, now at an outstanding 15.85 million t LCE
- Cash of AUD 5.1 million as per 30 September 2020

The Pre-Feasibility Study (PFS) of the Zero Carbon Lithium Project® has been completed. For Vulcan, this brings about a leading and unique position in the race to commercialize Lithium in Europe. Moreover, Vulcan steps up to an indispensable role on the path to commercial Lithium extraction in the Upper Rhine Valley. The project – it rather is a portfolio of projects – combines operations of extraction, of upgrading Lithium to a high purity hydroxide (LiOH) as well as the production of energy (renewable electricity). Due to the PFS, it reaches unparalleled dimension with an envisaged annual LiOH-production target of 39.4 thousand t (34.7 thousand t LCE p.a.).

In Vulcan's project areas, a staged development will implement a process technology proven effective for more than 20 years in industrial lithium carbonate production, which is known as Direct Lithium Extraction (DLE). Estimated resources of Vulcan's Upper Rhine Valley Project have reached a total of approx. 15.85 million t LCE in JORC-compliant terms (Inferred and Indicated Mineral Resource, probable Mineral Reserve: 1.12 million t LCE). This is an outstanding magnitude. A portion of 3.62 million t LCE has been classified as Indicated status.

The PFS sets the stage for further refinement of geological and engineering data as well as of the financial road map. Subsequent testwork will lead to the Definitive Feasibility Study (DFS), with completion scheduled for late 2021. On the basis of the DFS, Vulcan will be able to scale-up the lithium adsorption process so that commercial operation could start by mid-2024. With a CO₂ footprint of "zero", the project is intending to mark the beginning of the decarbonization of the battery industry.

Vulcan has achieved to take an indispensable role on the path to commercial Lithium extraction in the Upper Rhine Valley – and this conclusion is valid apart from its project's pure dimension (financial projections, significance of resource). With a concept as well as economic data on PFS-level on hand, Vulcan has evolved to be the benchmark and thus preferred partner for stakeholders to promote Lithium production in Germany (car / battery industry, electricity utilities). We have set a price target of EUR 8.20 (equivalent: AUD 12.95) for shares in Vulcan Energy Resources. The investment recommendation is "Buy" (unchanged).

Overview

The Australian exploration company Vulcan Energy Resources Ltd. has turned its attention to the exploitation of lithium resources in the Upper Rhine Valley, which are also generous by global standards. The concept: to combine the use of thermal water as an energy source (hydrogeothermal energy) with the extraction of the lithium contained in the lithium-rich geothermal brine without polluting the environment with emissions, waste material or toxic substances. With a CO₂ footprint of "zero", the project is predestined to mark the beginning of the decarbonization of the battery industry.

Most of the projects that competitors are planning for Europe involving the mining of the raw material lithium come with a drawback. As a result, even by the end of the decade, Europe is likely to only have come marginally closer to its goal of establishing an independent lithium supply chain, an objective that is guided by two key aspects: 1) strategic supply security and 2) keeping any emissions that are harmful to the climate and the environment to a minimum. By contrast, we consider the prospects of the Upper Rhine Valley project being implemented successfully to be plausible. In our view, lithium hydroxide/LiOH production of close to 40 thousand t from 2026 onwards (with fully operational facilities at Taro and Ortenau), is a baseline scenario.

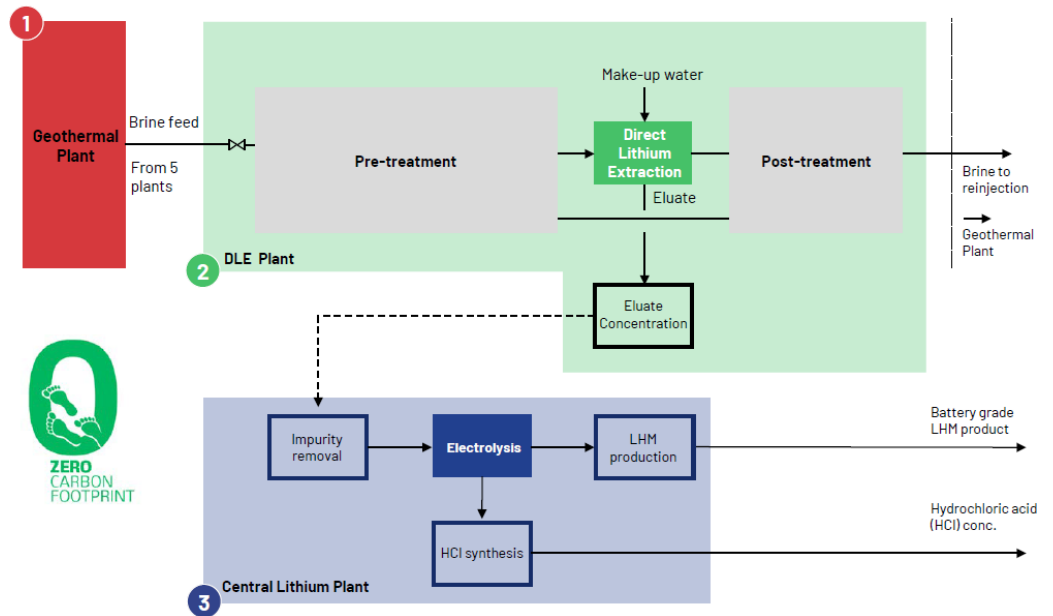
Irrespective of how the supply and demand situation in Asia will develop: securing the raw material supply for Europe's battery industry is a challenge that puts a European lithium producer in a strong position. In actual fact, we assume, for the purposes of the baseline scenario that we have applied, that lithium hydroxide produced free of CO₂ emissions in a core industrial region of Europe will benefit from a relevant premium on the reference price calculated for Asia. The European battery industry, which is currently in the process of expanding, will have strong incentives to use the raw material extracted by Vulcan Energy Resources.

Based on a lithium concentration estimated at 181 mg/l, a resource estimate of a total of approx. 15.85 million t lithium carbonate equivalent/LCE has been indicated for the Upper Rhine Valley Project (JORC-compliant: Indicated & Inferred Mineral Resource, probable Mineral Reserve: 1.12 million t LCE). This puts Vulcan Energy Resources at the very top of the rankings for the peer group of exploration projects in Europe – all of which are based on hard rock deposits.

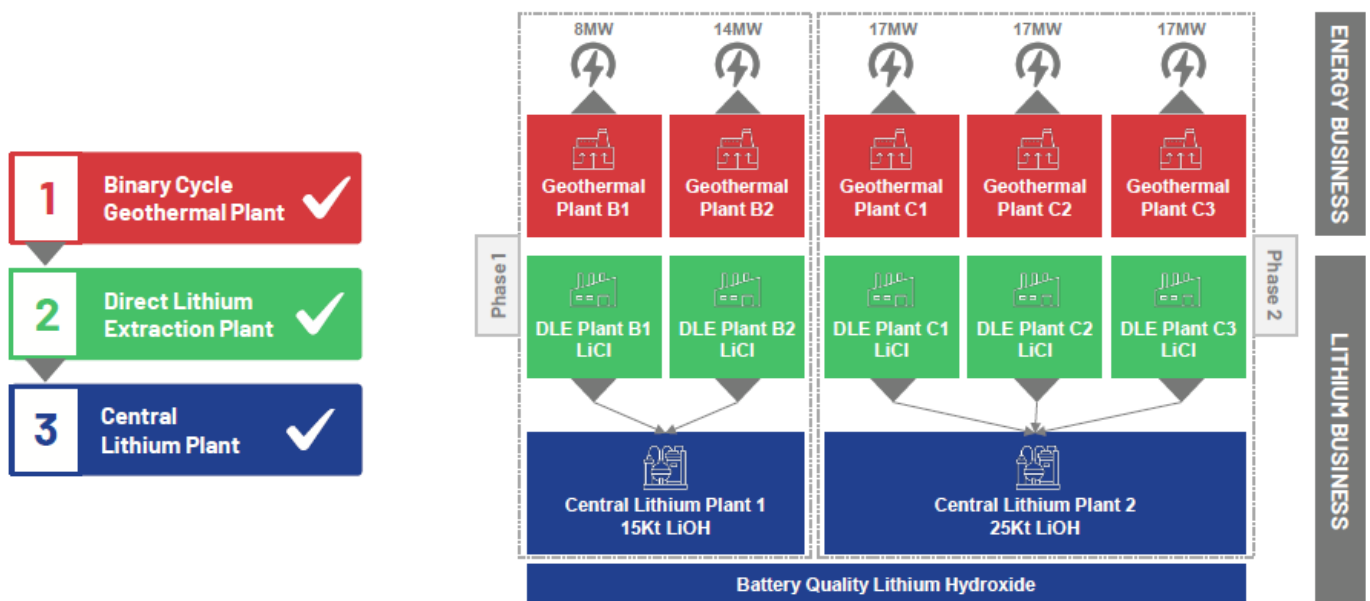
Following the start-up phase (2022 to 2025), which is characterised by capex, amortisation will be achieved within five years. Raising the capital remains a key aspect for the implementation of the Zero Carbon Lithium® Project in the Upper Rhine Valley.

Zero Carbon Lithium® Process due to PFS

- 1 Hot brine extracted from the ground and generates steam that powers turbines and produces renewable electricity
 - Standard geothermal production wells successfully implemented for decades on salars
- 2 Brine flow is diverted, and lithium is extracted from the solution with a Direct Lithium Extraction (DLE) process.
 - Commercially used for decades
- 3 Lithium chloride sent to lithium refining plant which will be converted LiCl to battery quality LiOH
 - Water is recycled, no toxic wastes, no gases are emitted, heat and power from renewable resources, no fossil fuels are burnt



Simplified image of Zero Carbon Lithium® Process



Source: Vulcan Energy Resources

SWOT analysis

<p>Strengths</p> <ul style="list-style-type: none"> ■ Location: Close proximity to the European battery industry which is currently being established, short transportation distance (carbon footprint, 1st aspect) ■ Largest JORC-compliant lithium resource in Europe (Inferred and Indicated Mineral Resource) ■ Carbon footprint, 2nd aspect: Lithium production using geothermal energy, without polluting the environment with emissions, waste material or toxic substances. ■ Lithium is separated within a matter of hours, eliminating external interference factors 	<p>Opportunities</p> <ul style="list-style-type: none"> ■ Headstart in the race to commercialize Lithium within Central Europe: Preliminary Feasibility Study (PFS) brings about the leading and – for the time being – a unique position ■ Rapid growth in lithium demand among the European battery industry ■ Contribution to an independent European lithium supply chain (supply aspect, short transportation distances) creates an incentive for the battery industry to pay a premium over the lithium reference price ■ Low-cost asset: Opportunity for operating costs at the lower end/in the lower quartile of the global peer group cost curve ■ Income from electricity feed-in as a second source of revenue besides lithium sales
<p>Weaknesses</p> <ul style="list-style-type: none"> ■ Funds required for project implementation have yet to be raised ■ Investment lead time will take more than two years 	<p>Threats</p> <ul style="list-style-type: none"> ■ In the short term, the reference price for lithium based on imports in China/Korea/ Japan could come under pressure and put a damper on investor sentiment. ■ Approval procedures, in particular legal action against authorisations granted, could delay implementation

Source: SRH AlsterResearch

Investment recommendation

Estimated resources of the Upper Rhine Valley Project of Vulcan have been elevated to a total of approx. 15.85 million t LCE in JORC-compliant terms (Inferred and Indicated Mineral Resource, probable Mineral Reserve: 1.12 million t LCE). This is an outstanding magnitude. Moreover, a portion of 3.62 million t LCE has been classified as Indicated status, following an addition in November (0,83 million t LCE at Taro) and a conversion in December (2.06 million t LCE at Ortenau).

Comparative Lithium Exploration Projects

Issuer	Project/Region	Mineral	Resource category	Resource grade mg/l Li % Li ₂ O	Resource kt	Li kt	LCE kt	Market assessment in MEUR	Market assessment in MAUD
Vulcan Energy Resources	ASX:VUL	Upper Rhine Valley	all categories	181	2,979	15,855	538.58	866.11	
			indicated	181	679	3,615			
			inferred	181	2,299	12,240			
American brine resources									
Lithium Americas Corp.	TSX:LAC	Cahchari-Olaroz/Argentina	measured&indicated	592		19,853	1,994.04	3,135.22	
			Inferred	592		4,723			
Millennial Lithium Corp.	TSXV:ML	Pastos Grandes/Argentina	measured&indicated	428		4,100	196.49	308.94	
			inferred	428		798			
			Reserves	439		943			
Orocobre Limited - Production started -	ASX:ORE	Salar d Olaroz/Argentina	measured&indicated	690		6,400	1,129.09	1,775.26	
Standard Lithium	TSXV:SLL	Arkansas/USA	indicated	168		3,140	291.43	458.22	
						2,198	analog to maximum share of JV		
European Hard rock deposits									
European Metals Holdings Limited	ASX:EMH	Cinovec/Czech Republic Mica (Zinnwaldite)	indicated&inferred	0.42%	696	1,347	7,170	126.18	198.39
Infinity Lithium	ASX:INF	San Jose/Extremadura, Spain Mica (Zinnwaldite)	indicated&inferred	0.61%	111	316	1,680	46.38	72.92
Savannah Resources	AIM:SAV	Mina do Barroso/Portugal Spodumene	measured&indicated	1.06%	15	74	391	76.99	121.05
			inferred	1.06%	12	59	316		

Source: Company, SRH AlsterResearch

Following the ramp-up phase (2022 to 2025), which will be characterised by high capex, with a five-year payback period, we have modelled surpluses in operational cash inflows until 2027e which would cover capex of USD 1,865 million. Fundraising remains a key aspect of the implementation of the Upper Rhine Valley project. By discounting our modelled cash flow projection, we have put the appropriate enterprise value (NPV) at USD 3,370 million and the equity value at USD 2,769 million (January 2021, corresponds to EUR 2.29 billion or AUD 3.61 billion).

Assuming dilution, which will occur in the course of the process involved in raising the additional equity required, we have modelled an appropriate valuation per share of EUR 8.23 (or AUD 12.95). At this juncture (January 2021), we have used a risk related discount of 0.50x. Valuation of such a project (or even a portfolio of projects) is not exact science, let there be the possibility of a delayed implementation in course of approval procedures, in particular legal action.

We set our price target at EUR 8,20 (before: EUR 1,55) and AUD 12,95 (before: AUD 2,55). The investment recommendation is "Buy" (unchanged).

Appendix – Charts

Upper Rhine Valley resource estimate

		Pilot plant (*) indicated	Taro indicated	Taro inferred	Ortenau indicated	Ortenau inferred	Upper Rhine Valley indicated + inferred
Total Volume of Brine Aquifer	km ³	8,322	8,419	15,924	17,001	117,974	
Average Porosity		9.000	10.227	9.400	12.600	9.500	
Average concentration	mg/l	181	181	181	181	181	
total elemental Li	mg	13,556,538	15,584,136	27,092,171	38,772,481	202,856,293	
total elemental Li	kt	136	156	271	388	2,029	
Lithium carbonate - LCE	kt	722	830	1,442	2,064	10,798	15,855
thereof indicated	kt	722	830		2,064		3,615
inferred	kt			1,442		10,798	12,240
Lithium hydroxide	kt	820	942	1,638	2,344	12,264	18,007
Lithiumoxid	kt	292	336	583	835	4,367	6,413

(*) site of established power plant

Sources: Vulcan Energy Resources, SRH AlsterResearch

Volume yield estimate Upper Rhine Valley (Taro, Ortenau)

		Taro North (B1)	Taro South (B2)	Ortenau (C1)	Ortenau (C2, C3)	Taro & Ortenau
number of wells (doublets)		3	2	3	6	14
Flow rate per well	m ³ /a	3,153,600	3,784,320	3,153,600	3,153,600	
	l/d	8,640,000	10,368,000	8,640,000	8,640,000	
Approach: 8,760 h/anno	l/h	360,000	432,000	360,000	360,000	
	l/s	100.000	120.000	100.000	100.000	
average concentration	mg/l	181	181	181	181	
Day factor (7,842 h of 8,760 h)		0.90	0.90	0.90	0.90	
DLE plant recovery		0.90	0.90	0.90	0.90	
Lithium refinery plant recovery		0.99	0.99	0.99	0.99	
Share VUL	mg/l	100%	100%	100%	100%	
Li/s	mg	43,126	34,501	43,126	86,253	
Li/h	kg	155.25	124.20	155.25	310.51	
Li/d	kg	3,726	2,981	3,726	7,452	
Li/a	kg	1,360,031	1,088,025	1,360,031	2,720,063	
Li/a	t	1,360	1,088	1,360	2,720	6,528
Lithium carbonate LCE/a	t	7,239	5,791	7,239	14,478	34,748
Lithium hydroxide/a	t	8,222	6,578	8,222	16,444	39,466

Source: SRH AlsterResearch

Base scenario revenue and cash flow

Figures in USD thousand	Fiscal year end: 31 Dec.									Periods		Periods					
	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	as from 2030e	2037e	2038e	2039e	2040e	from 2041e	2053e	2054e
Taro, Ortenau																	
CAPEX FX: EUR/USD 1.10	4,000	228,030	923,590	461,998	246,191	0	0	0	0		0	150,000	0	0		0	0
External Financing of geothermal power plant (Debt, Joint Venture)			355,000	250,000													
LiOH Volumen (t)		4,111	18,911	31,244	39,466	39,466	39,466	39,466			39,466	39,466	39,466	39,466		39,466	39,466
Price (USD thousand/t)		15.95	15.95	15.95	15.95	15.95	15.95	15.95			15.95	15.95	15.95	15.95		15.95	15.95
Costs (USD thousand/t) well and geothermal		3.00	3.00	3.00	3.00	3.00	3.00	3.00			3.00	3.00	3.00	3.00		3.00	3.00
Cost (USD thousand/t LiOH) Direct extractions and Lithium (*)		2.43	1.59	1.20	1.14	1.14	1.14	1.14			1.14	1.14	1.14	1.14		1.14	1.14
Revenue electricity sales		6,600	78,650	129,943	164,139	164,639	164,639	164,639			164,639	164,639	164,639	164,639		164,639	164,639
Revenues LiOH		65,573	301,636	498,354	629,500	629,500	629,500	629,500			629,500	629,500	629,500	629,500		629,500	629,500
Government royalty (5%)		0	0	0	0	0	0	0			0	0	0	0		0	0
Costs geothermal and LiOH		22,333	86,733	131,233	163,399	163,399	163,399	163,399			163,399	163,399	163,399	163,399		163,399	163,399
Working capital (commitment of funds)		10,000	23,478	14,803	9,375	0	0	0			0	0	0	0		0	0
Cash flow contribution	-4,000	-228,030	-568,590	-172,158	23,883	482,262	620,865	630,740	630,740		630,740	480,740	630,740	630,740		630,740	630,740

(*) Cost of Direct extractions and Lithium due to PFS: 3.142 USD thousand/t LiOH

Source: SRH AlsterResearch

For valuation purposes, our base scenario for revenue and cash flow diverges from PFS-data. We assume external financing of the geothermal power plant (debt or Joint Venture or Sale/Leaseback). A minor deviation from PFS data relates to the operational costs of the Direct Extraction Plants as well as the Central Lithium Plant.

DCF model Vulcan Energy Resources

Figures in USD thousand	Fiscal year end: 31 Dec.									Periods		Periods					
	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	as from 2030e	2037e	2038e	2039e	2040e	from 2041e	2053e	2054e
Cash flow contribution	-4,000	-228,030	-568,590	-172,158	23,883	482,262	620,865	630,740	630,740		630,740	480,740	630,740	630,740		630,740	630,740
Depreciation	0	400	15,766	53,672	67,805	84,218	84,218	84,218	84,218		83,818	68,452	40,546	26,413		10,000	0
EBT	-4,000	-14,600	-29,966	-28,032	201,547	388,647	521,822	522,322	522,322		522,722	538,088	565,994	580,127		596,540	606,540
Income tax (long-term 30%)	-1,200	-4,380	-8,990	-8,410	60,464	116,594	156,547	156,697	156,697		156,817	161,426	169,798	174,038		178,962	181,962
Net income	-2,800	-10,220	-20,976	-19,623	141,083	272,053	365,275	365,625	365,625		365,905	376,662	396,196	406,089		417,578	424,578
Free cash flow	within the DCF model																
Net present value	-8,800	-226,109	-569,910	-168,236	-41,068	361,181	459,831	469,556	469,556		469,436	314,826	456,455	452,215		447,291	444,291
Net present value	-8,345	-201,168	-475,731	-131,761	-30,178	249,012	297,445	284,976	267,376		160,516	101,001	137,393	127,710		55,150	51,397
Basic data	Sensitivity analyses: Equity value with variation...																
Total net present value 2021e to 2054e	3,372,982	BETA		1.20													
Net present value period 2020e	-2,830	implied market return		6.50%													
Terminal value (periods from 2055e)	0	risk-free return		1.50%		... of the WACC											
Total enterprise value	3,370,152	Debt ratio		18.16%													
Liabilities (per end of 2023, projection)	605,000					8.58%		1,779,868		10.20		1,448,866					
Cash and cash equivalents (end of 2019)	3,924					7.58%		2,227,538		12.75		2,102,403					
Equity value	2,769,076					6.58%		2,769,076		14.05		2,400,991					
		WACC		6.58%		5.58%		3,428,493		17.20		3,130,407					

Source: SRH AlsterResearch

Dilution path

	Jan 2021	Mid 2021	End of 2021	Mid 2022	End of 2022	Mid 2023	End of 2023	Mid 2024
Required funding (rough), in USD million								
- Provision for future use with a time lead -								
Capital requirements, cumulative, in USD million	0	7	122	281	928	1,160	1,563	1,868
Net cash provided by operating activities, cumulative, in USD million							-1	21
Equity capital raised, accumulated, in USD million	0	7	122	282	572	802	962	1,242
External Financing (Debt, Joint Venture, Sale/Leaseback) of geothermal power plant, cumulative					355	355	605	605
Event								
		PFS		DFS				
			DLE Start of construction	Lithium Start of construction	DLE + Lithium Completion			
Taro					Geothermal energy Start of construction	DLE + Lithium Start of construction	Geothermal + DLE + Lithium Completion	
Ortenau						Geothermal energy Start of construction	DLE Start of construction	Geothermal energy + DLE Completion
Equity Capital								
Assumed share price, in EUR	6.15	8.20	9.80	13.85	17.50	22.20	23.00	27.50
Capital increase, in EUR million	0	6	105	145	264	209	145	255
FX EUR/USD	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
Capital increase, in USD million	0	7	115	160	290	230	160	280
Capital increase in number of shares (in million)	0.00	0.78	10.67	10.50	15.06	9.42	6.32	9.26
Number of shares End of period, diluted (in millions)	89.07	89.85	100.52	111.02	126.08	135.50	141.83	151.08
Equity valuation stock exchange, in USD million	603	810	1,084	1,691	2,427	3,309	3,588	4,570
Dilution effect, factor	1.3	1.0	1.0	1.0	1.0	1.1	1.0	1.0
Dilution effect, in EUR/share	2.08	0.38	0.01	0.05	0.05	3.30	0.07	0.06
Company value								
according to progressive DCF, in USD million	2,736	2,853	2,965	3,299	3,431	4,709	4,261	4,581
Discount on NPV	50%	50%	45%	30%	15%	10%	10%	0%
per share, based on number of shares in mid 2024, in EUR	8.23	8.58	9.81	13.90	17.55	25.50	23.07	27.56

Source: SRH AlsterResearch

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Company	Disclosure
Vulcan Energy Resources Limited	2, 8

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Hold: Upside/downside potential is limited. No immediate catalyst visible.

NB: The ratings of SRH AlsterResearch AG are not based on a performance that is expected to be "relative" to the market.

The decision on the choice of the financial instruments analysed in this document was solely made by SRH AlsterResearch AG. The opinions and estimates in this research report are subject to change without notice. It is within the discretion of SRH AlsterResearch AG whether and when it publishes an update to this research report, but in general updates are created on a regular basis, after 6 months at the latest. A sensitivity analysis is included and published in company's initial studies.

5. Major Sources of Information

Part of the information required for this research report was made available by the issuer of the financial instrument. Furthermore, this report is based on publicly available sources (such as, for example, Bloomberg, Reuters, VWD-Trader and the relevant daily press) believed to be reliable. SRH AlsterResearch AG has checked the information for plausibility but not for accuracy or completeness.

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8. Miscellaneous

According to Article 4(1) No. i of the delegated regulation 2016/958 supplementing regulation 596/2014 of the European Parliament, further information regarding investment recommendations of the last 12 months are published under: <https://www.alsterresearch.com>.

History of investment recommendations for Vulcan Energy Resources Limited

Date	Analyst	Investment recommendation	Price target	Price basis (end of previous day Frankfurt)
19 January 2021	Oliver Drebing	Buy	EUR 8.20	EUR 6.150 (opening price)
29 September 2020	Oliver Drebing	Buy	EUR 1.55	EUR 0.690
12 June 2020	Oliver Drebing	Buy	EUR 1.50	EUR 0.282
4 March 2020	Oliver Drebing	Buy	EUR 1.45	EUR 0.159