

# Tawana Resources (TAW:ASX)

**Funding confirmed & construction underway;  
Next step: Commissioning / Production**

## Key Facts

Company Code	ASX:TAW
Closing Price (24/10/17)	\$0.37
Date of Report	25/10/17
Company Website	<a href="http://tawana.com.au">tawana.com.au</a>
Analyst	Reg Spencer

## Company Statistics

12 Month High	0.40
12 Month Low	0.08
Market Cap (A\$Mil)	A\$184m
Issued Shares	499.3
Issued Options	24.4
Cash (Est.) (A\$Mil)	A\$11.0m

## Major Shareholders

Shareholder	%
Weire	11%
Merrivee P/L	9%
Tribecca Inv Partners	7%

## Share Price Performance



Canaccord Genuity (Australia) Limited has received a fee as the Lead Manager to the Tawana Resources NL capital raising announced on 20 Oct 2017.



If you have received this indirectly, please click [here](#) to receive future research on TAW and other Colt companies.

## Investment Highlights

The strategic investment by a Chinese/European electric motor and EV company is a major de-risking milestone for TAW and the Bald Hill lithium project. The investment now sees all construction and pre-production working capital costs covered, with the potential for some surplus funds to be committed to further resource drilling programs. In addition, the involvement of a downstream lithium player/EV maker is an excellent endorsement of the potential of the Bald Hill project, and provides further evidence of the strong demand outlook for key lithium-ion battery raw materials. With first production on track for Q1'18, Bald Hill is well placed to capitalise on the current strong pricing environment and be one of the few lithium projects globally to achieve production during 1H'18.

## Strategic investment from Chinese/European electric motor & EV company

TAW recently announced that it had secured an equity+debt funding package from Weire Antriebe und Energietechnik, a 100% owned subsidiary of Shenzhen-listed, electric motor and EV maker, Jiangxi Special Electric Motor Co Ltd ("JSEM", market cap CNY21B, annual turnover +CNY2.95B). The funding package includes A\$20m in new equity, and a short term, secured debt facility for a total of A\$5m maturing in Dec'19. JSEM recently formed a Joint Venture with Bald Hill offtake partner Burwill Holdings, for the development of a 10ktpa lithium carbonate and 5ktpa lithium hydroxide facility in China, to be fed by spodumene concentrate from Bald Hill.

## Financing closes working capital gap and funds Bald Hill through to first sales

With project construction costs fully covered by the Burwill prepayment (total A\$25m) and existing cash reserves, the completion of the funding with Weier/Jiangxi (and recent equity financing for Bald Hill JV partner Alliance Mineral Assets) now sees all pre-development working capital requirements covered, with the project now fully funded through to first sales (currently scheduled for Q1'18). In addition, TAW has renegotiated certain terms of its offtake agreement with Burwill, including a reduction in the amortisation rate of the A\$12.5m prepayment from 20% to 15% of the value of each shipment. This is expected to enhance Year 1 cashflows and provide working capital flexibility during production ramp up.

## Resource update supports potential for longer mine life

Following the completion of resource drilling programs in Aug'17, TAW recently announced an updated resource estimate for Bald Hill, with total lithium resources increasing by 48% to 19Mt at 1.18% Li<sub>2</sub>O. The revised resource estimate is expected to lead to updated Ore Reserves for Bald Hill (due end'17), which we anticipate could support a mine life for the project of 8-10 years (versus 3.5 years in the Jul'17 PFS). We further highlight that surplus funds from the recent financing may be directed to drilling programs to further increase project resources, supporting additional increases in mine life or possible increases in production through plant expansions.

## Construction underway; on track for commissioning/first production Q1'18

Construction and development activities at Bald Hill commenced in Aug'17, with key activities to date including advancement of detailed project design (now 70% complete), bulk earthworks nearing completion, advancement of concrete works and setting of structural steel, closing of major contract tenders and appointment of senior technical/operating staff. The project remains on schedule for commissioning and first production in Q1'18.

## Project valuation

Based on the operating parameters outlined in the PFS (see page 4), including estimated annual spodumene concentrate production of 150-200ktpa, an assumed mining inventory supporting a 10 year mine life, and varying spodumene concentrate pricing assumptions, we estimate a project valuation (NPV<sub>10%</sub>) range of A\$410-562m for the Bald Hill project (100%).

## Financing update – project now fully funded through to cashflow

### Package includes strategic investment from Chinese-European electric motor/EV company

TAW recently announced that it had secured a funding package, which includes:

- A\$20m equity placement at A\$0.35 – a premium to the 10 day VWAP
- A\$5m secured debt facility (11% p.a. maturing Dec'19, with early repayment possible without penalty). The facility has been secured against the DMS processing plant only.

The funding comes from German company Weier Antriebe und Energietechnik, a wholly owned subsidiary of Shenzhen-listed, electric motor and EV maker, Jiangxi Special Electric Motor Co Ltd (002176:SHE | Not rated).

The funds will go towards meeting pre-production working capital requirements at Bald Hill (noting that mine and plant development capex fully funded through the A\$25m Burwill prepayment [fully received 10 Oct'17] and existing cash reserves), with additional funds available for exploration/resource drilling.

We highlight that JV partner Alliance Mineral Assets (40F:SGX) recently completed a SGD\$21m equity raising through offtake partner Burwill Holdings, with proceeds used to fund their share of pre-production working capital requirements.

### About Jiangxi Special Electric Motor Co (JSEM)

JSEM, was founded in 1991, and is based in Yichun, China. The company's main business activities include the manufacture and sale of electric motors, and in recent years, has diversified into the production of lithium products (including lithium-ion battery cathode materials), lithium ion batteries and electric vehicles. The company, listed on the Shenzhen stock Exchange in China, has a current market capitalisation of CNY21B (AUD\$4.2B), and reported sales in 2016 of CNY2.95B, of which CNY1.8BN was from its EV division. Annual revenues have grown by an average of 26% over the last 5 years.

JSEM has existing mineral concentrate conversion facilities in China, but through its recently signed 50:50 Joint Venture with Bald Hill offtake partner Burwill Holdings, plans to establish a 10ktpa (lithium carbonate) and 5ktpa (lithium hydroxide) converter facility in China fed by Bald Hill lithium concentrates.

Weier Antriebe und Energietechnik GmbH ("Weier"), is a 100% owned subsidiary of JSEM, and was founded in Germany in 1945. The Company was initially focused on electric motor manufacturing in the early 1980's before supplementing its electromotor product range by manufacturing generators for wind power plants, in the process becoming one of the first German companies involved in the production of renewable energy equipment.

### Revised offtake terms provide more flexibility during production ramp up

TAW has also announced that it has agreed with Burwill for the revision of certain terms of its offtake agreement. These include a reduction in the amortisation rate of the prepayment from 20% of the value of each shipment to 15%. TAW has received all A\$12.5m of the funds under the agreed prepayment.

This revision is expected to enhance cashflow in Year 1 of production (we estimate that the prepayment to both JV parties would be amortised in the first ~12 months from production start) and provide additional working capital flexibility during production ramp up.

## Resource Update

TAW released an updated Mineral Resource estimate for Bald Hill in Oct'17, increasing total lithium resources by 48% (versus the previous update in Jul'17) to 19Mt at 1.18% Li<sub>2</sub>O. In addition, high grade tantalum resources have increased to 10Mt at 323ppm Ta<sub>2</sub>O<sub>5</sub>

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Strategic investment by a Chinese/European electric motor and EV company is a strong endorsement of the potential of the Bald Hill project.  
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### Figure 1: Bald Hill Resource Estimate

**Top:** lithium +0.5% Li<sub>2</sub>O cut off; **Middle:** lithium +0.5% Li<sub>2</sub>O cut off & 200ppm Ta<sub>2</sub>O<sub>5</sub> cut off; **Bottom:** High grade tantalum resources

Resource Category	Tonnes (Mt)	Grade (% Li <sub>2</sub> O)	Contained Li <sub>2</sub> O	Grade (ppm Ta <sub>2</sub> O <sub>5</sub> )	Contained Ta <sub>2</sub> O <sub>5</sub> (Mlbs)
Indicated	8.0	1.18%	95,000	190	2,800
Inferred	10.9	1.18%	128,300	118	2,300
<b>TOTAL</b>	<b>18.9</b>	<b>1.18%</b>	<b>223,300</b>	<b>149</b>	<b>5,100</b>

Resource Category	Tonnes (Mt)	Grade (% Li <sub>2</sub> O)	Contained Li <sub>2</sub> O	Grade (ppm Ta <sub>2</sub> O <sub>5</sub> )	Contained Ta <sub>2</sub> O <sub>5</sub> (Mlbs)
Indicated	2.5	1.20%	33,300	315	1,900
Inferred	1.2	1.18%	14,500	296	800
<b>TOTAL</b>	<b>3.7</b>	<b>1.20%</b>	<b>47,800</b>	<b>309</b>	<b>2,700</b>

Resource Category	Tonnes (Mt)	Grade (ppm Ta <sub>2</sub> O <sub>5</sub> )	Contained Ta <sub>2</sub> O <sub>5</sub> (Mlbs)
Indicated	3.9	342	1,700
Inferred	2.5	313	2,950
<b>TOTAL</b>	<b>6.4</b>	<b>330</b>	<b>4,650</b>

Source: Company reports

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...we expect that Bald Hill could ultimately support a mine life well in excess of 10 years.

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The increase in Resources is expected to lead to an updated Ore Reserve estimate by end 2017, potentially supporting a mine life in well in excess of the 3.5 year Reserve outlined in the feasibility study. We highlight that the July'17 feasibility outlined a Resource:Reserve conversion rate of 94%, and based only on the updated Resource (excluding the likely conversion of some Inferred Resources), we estimate Reserves could increase to ~9Mt, supporting a mine life of +8 years.

Based on the potential for further Resource definition within the project area (updated Resource only covering approximately 25% of the of the known southern pegmatite swarm), and the likelihood of additional conversion of Inferred Resources through infill drilling, we expect that Bald Hill could ultimately support a mine life well in excess of 10 years.

We further highlight that any surplus funds from the recent financing may be directed to drilling programs to further increase project resources, supporting additional increases in mine life or possible increases in production through plant expansions

### Project development update – first production on track for Q1'18

Construction and development activities at Bald Hill commenced Aug'17, with key activities to date including:

- Detailed project design now 70% complete
- Concrete works well advanced, with structural steel packages let and screens and pumps arriving on site
- Bulk earthworks nearing completion
- Major equipment procurement progressing with critical orders on track
- Major contract tenders now closed with review underway
- Appointment of senior technical personnel including Project Directors for both JV parties

Based on project to date, Bald Hill remains on schedule for commissioning in Q1'18, with first product shipment possible by late Q1'18. Key upcoming project milestones include:

Mining mobilisation	Oct '17
Commencement of mining	Nov '17
Ore commissioning	Feb '18
First production	~Q1'18

## Updated Project Valuation

We have updated our project model for Bald Hill, with key revisions versus the PFS including revised mining and material movements, and the prepayment amortisation reduced to 15% per shipment. Key operating and financing assumptions underlying our project valuation include:

- Development capital of A\$43m, with construction commencing JunQ'17, and annual sustaining capital of A\$1.5m
- Assumed mining inventory (lithium only) of 11.7Mt at 1.18% Li<sub>2</sub>O (representing 94% conversion of Indicated Resources, and ~40% conversion of Inferred Resources) supporting a mine life of 10 years.
- Annual ore mining rate of 1.6Mtpa with LOM average strip ratio of 9:1.
- DMS circuit feed rate of 1.2Mtpa with subsequent installation of fines flotation from Year 2 with assumed capex of A\$14m
- Average recoveries of +66%
- Phase 1 spodumene concentrate production of 158ktpa at 5.5-6% Li<sub>2</sub>O, increasing to 203ktpa under Phase 2 of production. Additional tantalum by products of 250,000lbs in concentrate at 25% Ta<sub>2</sub>O<sub>5</sub>.
- Average ore mining costs of A\$3.40/t mined, total DMS processing and site G&A costs of ~A\$28/t, product transport and handling costs of A\$51/t, WA State royalties of 5%, resulting Phase 1 production costs of A\$634/t FOB, reducing to A\$364/t FOB under Phase 2.
- Average LOM Spodumene concentrate prices of US\$743/t (US\$880/t for 6% Li<sub>2</sub>O in 2018/19), and tantalite prices of US\$66/lb.

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We continue to highlight the potential for a larger than assumed mining inventory based on the potential for additional resources identified through further drilling.

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## Project valuation & sensitivity

Based on the assumptions above, we estimate a “base case” project NPV<sub>10%</sub> (100% basis) of A\$410m, with average annual EBITDA of A\$106m, and annual FCF of A\$98m based on an average LOM spodumene concentrate price of US\$743/t (US\$880/t in 2018/19). We continue to highlight the potential for upside to our preliminary valuation based on a larger than assumed mining inventory from the potential for additional resources identified through further drilling, and higher spodumene prices. As such, we have presented in Figure 2 below a valuation sensitivity to both these factors.

**Figure 2: Project valuation sensitivities**

A\$m NPV <sub>10%</sub> (100%)	Base Case CG forecasts	2018/19 Offtake pricing (flat LOM)	'17 "benchmark" US\$905/t
Mine life - 13 years	481.0	633.0	656.0
Mine life - 10 years	410.0	542.0	562.0

Source: Canaccord Genuity estimates

## Appendix: Investment Risks & Important Disclosures

### Key investments risks for TAW include (but are not limited to) the following:

#### Financial risks

As pre-production companies with no material income, TAW are reliant on equity and/or debt markets to fund on-going development of its assets and progressing exploration activities. Total development and working capital requirements for Bald Hill are subject to completion of feasibility studies. Further we can make no assurances that accessing equity/debt markets can be done without further dilution to shareholders.

#### Exploration risks

Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with exploration techniques and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurance can be given that exploration will delineate Resources or mineable Reserves.

#### Operating risks

If and when in production, TAW will be subject to risks such as plant/equipment breakdowns, metallurgical (meeting design recoveries within a complex flowsheet), materials handling and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets considerably and negatively impact valuation. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations which can also materially impact forecast production from original expectations.

#### Commodity price and currency fluctuation

As prospective lithium concentrate producers, TAW is exposed to commodity price and currency fluctuations, often driven by macro-economic forces including inflationary pressure, interest rates and supply and demand of commodities. These factors are external and could reduce the profitability, costing and prospective outlook for the business.

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A site visit has been conducted in August 2016. No payment was received for related travel costs

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