EUROPEAN METALS HOLDINGS LTD (EMH.L)

MINING

16/08/2017

Sitting on Largest Known Lithium Resource in Europe

European Metals Holdings is a London AIM and ASX listed minerals development company. The firm is currently progressing the Cinovec Lithium Project in the North-West of the Czech Republic (almost on the German border).

SHARE PRICE	52 WEEK LOW
48p	19.25p
MARKET CAP	**52 WEEK HIGH**
£62.7m	82p
NET ASSETS	**CASH**
$10.5m	$3.37m
*31st December 2016	*31st December 2016

REASONS TO CONSIDER EUROPEAN METALS HOLDINGS:

The Lithium story: Lithium is a key component in modern battery technology. With the prospective boom in electric vehicle demand, in addition to growth in other battery storage requirements; lithium is widely regarded as a commodity which will be in demand.

A Low cost asset: The proposed Cinovec operation sits on the largest known lithium resource in Europe, and is initially proposed to have a 22 year mine life (commencing 2021), producing ~20.8Ktpa of Lithium Carbonate (LCE) (the lithium product immediately ready for battery production). We note that this mine life is only based on ~5% of the known resource, thus upside potential for life extension, and/or scale of the project is a meaningful possibility. Importantly for potential European Metals Holdings investors, the operation is expected to have operating costs of ~US$3500/t LCE, placing the operation in the lower half of the global operating cost curve. Current capex estimates for the project are US$393m. Assuming a LCE price (flat for life of mine) of US$10000/t (broadly around current levels), and the net by-product operating cost of US$3500/t, investors could see an asset NPV (@10%) of ~US$370m (as compared to a ~US$75m company market capitalisation at present). Furthermore, at the asset level, at steady state production (and again assuming US$10000/t LCE price), the asset could generate cashflow yields of ~150% per annum. This is based on current market cap of ~US$75m, and before consideration of funding mix for upfront project capex, which is likely to contain significant debt portion, which would dilute cash returns to equity holders. That being said, the potential cashflow at the asset level should be able to allow for plenty of dilution, and still leave equity investors with significant cash yield.

A strategic location: With lithium demand likely to surge in coming years, underpinned by the growth in electric car penetration (and battery storage applications), the Cinovec project is ideally placed in close proximity to some of Europe's largest car manufacturers (and electronic manufacturers). We understand European Metals Holdings has already been attracting meaningful interest from some large potential customers, and we would envisage that as electric vehicle and battery storage output grows, that the major European auto-producers would prefer a stable source of proximate supply.

Funding is a key issue: With expected strong interest from German auto-manufacturers in the Cinovec product; we would anticipate European Metals Holdings signing meaningful offtake agreements ahead of project development, which would help facilitate a significant debt component to the funding mix for project development (typically assisting returns on equity). A strong asset value should underpin an attractive funding mix, of which the exact details will determine the upside potential for equity investors.

Overall: European Metals Holdings is one of the few European equity exposure's to the Lithium demand thematic. It possesses a large resource base, in a strategic location. Production should be low cost, accordingly, the operation should be able to withstand the vagaries of commodity markets. As the company commences the Cinovec definitive feasibility study in the second half of 2017, we recommend potential investors watch out for announcements of offtake or alliances with potential customers, as key catalysts for the stock.

MAJOR SHAREHOLDERS

1) **Computershare Company – 24.8%**
2) **Rare Earth Minerals – 20.61%**
3) **ARMCO Barriers Pty – 9.75%**

Shares in Issue	130.7m
Avg Trading Volume	262k
Primary index	AIM
EPIC	EMH.L
Next Key Announcement	-
Sector	Mining

SHARE PRICE CHART

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CINOVEC – ASSET SUMMARY

Cinovec is a potential large scale, low cost lithium project located in the Czech Republic, adjacent to the German border. It hosts the largest known lithium resource in Europe, with substantial exploration upside.

The location: With lithium demand likely to surge in coming years underpinned by the growth in electric car penetration (and battery storage applications), the Cinovec project is ideally placed in close proximity to some of Europes's largest car manufacturers (and electronic manufacturers). We understand the company has already been attracting meaningful interest from some of the large potential customers. Furthermore, the areas is well served by established infrastructure, a local skilled workforce, and supportive government (at local and national levels)

The status: The asset has a completed prefeasibility project, which suggests that production could commence by 2021. The company is currently looking to fund the ~EUR12m (~US$10m) required for the Definitive Feasibility Study (DFS), the final major study ahead of an approval decision for the project. We would expect the company to tap the equity markets for this modest cash amount in coming months.
The resource: The Cinovec resource is currently comprised of ~657Mt @ 0.4% Li_2O. We note that the Pre-feasibility study has defined a 22 year mine life, purely based on only ~5% the total resource. Accordingly, our that valuation figures (below) are only based on this small component of the resource base, suggesting strong potential for either life extension or an increase in scale, should the markets allow. Importantly, the resource also contains economic quantities of tin, tungsten and potash, which should offset lithium operating costs materially.

The operations: The proposed operation is a 22 year mine life, producing ~20.8Ktpa of Lithium Carbonate (LCE) (the lithium product immediately ready for battery production). Importantly for potential European Metals Holdings investors, the operation is expected to have operating costs of ~US$3500/t LCE, placing the operation in the lower half of the global operating cost curve. Despite having a relatively low grade resource, the low operating costs are driven by the high by-product credits available (from tin, tungsten and potash), the friable nature of the ore (leading to lower crushing and grinding requirements), a specific geology of the ore (which allows for lower cost processing techniques, such as low temperature roasting and wet magnetic separation).

The economics: Current capex estimates for the project are US$393m, with approximately half that amount being spent on the Lithium Carbonate Plant (required to process the lithium concentrate into the higher value 'battery-ready' material). Assuming a LCE price (flat for life of mine) of US$10000/t (broadly around current levels), and a net by-product operating cost of US$3500/t investors could see an asset NPV (@10%) of ~US$370m (as compared to a ~US$75m company market capitalisation at present). We note that this valuation moves by ~US$100m for each US$1000/t change in the average LCE price received over the life of the mine. Furthermore, at the asset level, at steady state production (and again assuming US$10000/t LCE price), the asset could generate cashflow yields of ~150% per annum. This is based on current market cap of ~US$75m, and, importantly, before consideration of funding mix for upfront capex, which is likely to contain significant debt portion, which would dilute cash returns to equity holders. That being said, the potential cashflow at the asset level should be able to allow for plenty of dilution resulting from the funding mix, and still leave equity investors with significant cash yield.