

30th March 2020

Sector: Mining

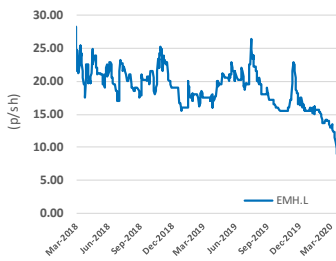
Commodities:

Lithium, tin, tungsten in the Czech Republic

Lithium hydroxide and Lithium carbonate

Market data

Ticker	EMH
Price (p/sh)	11.25p
12m High (p/sh)	26.7p
12m Low (p/sh)	8.2p
Shares (m)	153.1m
Mkt Cap (£m)	17.2m
Markets	AIM & ASX



Source: LSE

Description

European Metals Holdings Limited is a mineral exploration and development company listed on AIM and the ASX. The company's main focus is on advancing the Cinovec lithium-tin project located in the Czech Republic. EMH has completed a PFS (updated June 2019) and Cinovec will produce either lithium carbonate or lithium hydroxide.

www.europeanmet.com

Board & key management

Chairman	Dave Reeves
MD	Keith Coughlan
Exec Director	Richard Pavlik
Non-Exec	Kiran Morzaria

Analyst

phil.swinfen@shardcapital.com

020 7186 9008

Phil Swinfen

European Metals

CEZ investment finalised despite global turbulence

European Metals has reached **final** agreement with CEZ Group regarding a strategic partnership and significant investment into EMH's Cinovec lithium project. The agreement will see CEZ become a 51% shareholder in Geomet which holds 100% of Cinovec. To conclude a major agreement of this magnitude that progresses Cinovec firmly along the development path, and in the current world climate and skittish markets is a considerable achievement.

- ▶ **Background.** This potential strategic partnership with CEZ was announced in November 2019 in the form of a conditional agreement. CEZ has completed its due diligence and this agreement is now final. EMH has received a binding commitment from CEZ to subscribe to become a 51% shareholder in Geomet. The agreement is now conditional only on shareholder approval at an EGM to be held shortly (April 2020). CEZ is one of Central and Eastern Europe's largest power utilities and is 70% owned by the Czech State.
- ▶ **Slightly amended terms.** The terms of the agreement are largely the same except for the following two points. 1.) a reduction in the price payable by CEZ from €34.06m to €29.1m, based on current market conditions and 2.) a clause to allow CEZ to elect to withdraw from funding of the Project at two separate milestones. The first withdrawal milestone is designed to coincide with completion of the front-end engineering design program and semi-industrial pilot testing of the lithium concentrate processing while the second withdrawal milestone is designed to coincide with completion of the DFS. Further details of the Final Agreement will be set out in the supplementary circular to be posted to EMH shareholders shortly.
- ▶ **Withdrawal implications.** If CEZ elects to withdraw, Geomet will return to CEZ the unspent portion of CEZ's commitment minus €250,000 which stays with Geomet to cover short term costs. Following a withdrawal, CEZ will reduce its holding on a pro-rata basis to a minority position in Geomet. We understand that this means that the agreement has predetermined expenditure milestones tied to specific dates with reference to the withdrawal. Thus, by the first milestone, significant expenditure will have been sunk into the project. To be clear, it does not mean that entire €29.1m will have to be returned. Whatever amount has already been spent by the first withdrawal date along with an additional €250,000 that stays with Geomet will not be returned.
- ▶ **Example.** If you pick a number, assume say €10m in total was spent for the first milestone, then Geomet would return €18.85m (€29.1m-€10m-€0.25m) and CEZ would exit with a 17.5% interest in Geomet, being the pro-rata share of the target 51% investment (34.3% of 51%).
- ▶ **Progression under any scenario.** The key takeaway is that regardless of a withdrawal by CEZ (for which at present, we see little rationale), by the time the first milestone is met, Cinovec will be materially further advanced and firmly on the next stage of development.
- ▶ **Rationale unchanged.** The objective remains clear, to secure funding for the next stage of Cinovec's development with the proceeds being used to take Cinovec through to a construction decision and complete all permitting. EMH expects the DFS and FEED to take up to 18 months to complete. In an uncertain world, this alleviates development funding pressure with a clear pathway to "button pushing time". It also means EMH should not need to suffer any significant equity dilution during this phase.
- ▶ **Strong partner.** We retain our view that for Cinovec to go into production it needs to be developed in conjunction with the Czech State and fully integrated with the Czech Republic's and Europe's battery market ambitions. CEZ, of course is the ideal partner here, deep pockets, technical capability, historical mining experience and a defined EV/battery strategy. Cinovec is situated in close proximity to the epicentre of Europe's likely battery response.
- ▶ **Clear path.** Although by the conclusion of the agreement, EMH will become a minority holder in Cinovec, this shouldn't be the sole focus. Junior miners rarely, if ever get to retain a true majority stake in a globally significant project. EMH will remain the project manager with a steady source of cashflow during development. Furthermore, better a minority in a large project on the path to production than a sole owner of a stranded asset. Having CEZ as a partner will also likely unlock further financing and off-take opportunities for the big build. Ultimately there are very few lithium projects with such a clear path and the option of producing carbonate or hydroxide depending on the preferred battery chemistry outlook of key future partners.
- ▶ **Bags of value left.** On a value basis, even after adjusting for minority, the deal looks accretive with reference to market cap and NPV metrics in our view. Our unfunded hydroxide scenario NPV is \$661m, using higher capex assumptions than EMH. Retaining our 0.5x multiple and applying the 49% minority still kicks out an unfunded NAV of \$169m (80p/sh) even before considering a reduction in the risk discount to reflect a project funded through to a construction decision. EMH is not short of value in Cinovec and the current Mkt cap remains unchallenging in our view. We will update our numbers in due course.

Disclaimer

This document has been prepared and issued by Shard Capital Partners LLP ("Shard Capital"), which is authorised and regulated by the Financial Conduct Authority.

This document constitutes a minor non-monetary benefit. This document is a marketing communication and not independent research. As such, it has not been prepared in accordance with legal requirements designed to promote the independence of investment research.

This document is published solely for information purposes and is not to be construed as a solicitation or an offer to buy or sell any securities, or related financial instruments. It does not constitute a personal recommendation as defined by the Financial Conduct Authority, nor does it take account of the particular investment objectives, financial situations or needs of individual investors. The information contained herein is obtained from public information and sources considered reliable. However, the accuracy thereof cannot be guaranteed.

The information contained in this document is solely for use by those persons to whom it is addressed and may not be reproduced, further distributed to any other person or published, in whole or in part, for any purpose, at any time, without the prior written consent of Shard Capital. This document is not intended for retail customers and may not be distributed to any persons (or groups of persons) to whom such distribution would contravene the UK Financial Services and Markets Act 2000. Moreover, this document is not directed at persons in any jurisdictions in which Shard Capital is prohibited or restricted by any legislation or regulation in those jurisdictions from making it available. Persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

Shard Capital or its employees may have a position in the securities and derivatives of the companies researched and this may impair the objectivity of this report. Shard Capital may act as principal in transactions in any relevant securities or provide advisory or other service to any issuer of relevant securities or any company connected therewith.

None of Shard Capital or any of its or their officers, employees or agents accept any responsibility or liability whatsoever for any loss however arising from any use of this document or its contents or otherwise arising in connection therewith. The value of the securities and the income from them may fluctuate. It should be remembered that past performance is not a guarantee of future performance. Investments may go down in value as well as up and you may not get back the full amount invested. The listing requirements for securities listed on AIM or ISDX are less demanding and trading in them may be less liquid than main markets. If you are unsure of the suitability of share dealing specifically for you then you should contact an Independent Financial Adviser, authorised by the Financial Conduct Authority. By accepting this document, the recipient agrees to the foregoing disclaimer and to be bound by its limitations and restrictions.

Shard Capital has in place a Conflicts of Interest Policy relating to its research and marketing communication activities, and disclosure and conflicts in general is available on request.