

# Investment Memo: Latin Resources (ASX: LRS) - CLOSED

*Date of Initial Coverage: 26th Nov 2020*

*Memo opened: 17th Feb 2022*

*Memo closed: 10th June 2022*

**Reason memo closed:** *OUTPERFORM: LRS made a lithium discovery, subsequently raising \$35M to define the size of the discovery. These are two material events that have triggered a new Investment Memo for us to track.*

Read "[Investment memo recap and what triggers a re-set](#)" for more...

**LRS Shares Held at memo open:** 12,475,000

**LRS Share Held at memo close:** 5,755,000

**Link to current LRS Investment Memo:** <https://catalysthunter.com/company/lrs/>

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## What does LRS do?

Latin Resources (ASX: LRS) is a multi-commodity exploration and development company focussed primarily on lithium in Brazil and halloysite and kaolin in WA.

## What is the macro theme behind LRS?

Lithium is the key component of EV battery cathodes and has experienced strong upwards price momentum recently after a long period in the doldrums. We believe battery metals are the most compelling investment theme of this decade.

Halloysite is a carbon nanostructure clay with a range of high-tech and emerging use cases. With current use cases in the medical industry, ceramics and coatings. Due to its unique composition scientists are exploring further use cases for halloysite. This includes using it for carbon emission mitigation and advanced materials.

**[Memo Assessment - June 10th, 2022]: Grade = A.** Our assessment that lithium prices could take LRS higher was on point we're bullish on battery metals as part of a decade long investment thematic.

## Why do we continue to hold in 2022?

1. **Lithium** - The tenements that LRS holds in Brazil have been underexplored for lithium and early stage work has looked promising to date. We believe given

market dynamics, a lithium discovery could generate significant upside and become a company making event..

**[Memo Assessment - June 10th, 2022]: Grade = A.** This reason for holding LRS materialised early in the year with LRS making a new lithium discovery at its Brazilian lithium project. Off the back of this discovery LRS re-rated to a \$200M+ market cap and managed to get a \$35M capital raise completed. We think that the discovery was a clear “company making event”.

2. **Halloysite** - LRS has a significant high grade halloysite deposit in WA with an existing JORC Mineral Resource Estimate. We believe this is the most likely near-term source of revenue for the company.

**[Memo Assessment - June 10th, 2022]: Grade = C.** The halloysite project has taken a back seat ever since LRS made its new lithium discovery in Brazil. We were expecting this to become a slightly stronger part of the LRS story in the second half of the year and still think it may come into play but for now we are solely focused on seeing LRS developing its Brazilian lithium project. We don't expect LRS's halloysite project to drive significant value over the next 12 months.

3. **Potential to re-rate** - LRS has a large retail following and hence has the potential for significant share price re-rates on good news. This is a double edged sword however as the share price can drop too on average news or long periods without news.

**[Memo Assessment - June 10th, 2022]: Grade = A.** This also materialised early in the year, LRS made its new discovery and the market rewarded it by taking the share price from ~3.5c per share all the way up to a high of 22.5c per share. We think this sharp rise in a matter of only 2-3 weeks was a result of LRS' large retail following and the ability for the good news to spread really quickly bringing more eyeballs to the company.

## What do we expect LRS to deliver in 2022?

### **Objective #1: JORC resource at the Brazilian lithium projects.**

Complete at least two or three rounds of drilling to try and delineate a JORC lithium resource. We want to see LRS deliver lithium grades > 1% across the drilling programs which would make it more likely that a high grade JORC resource can be established.

**[Memo Assessment - June 10th, 2022]: Unchanged.** This is a key objective we have carried over into our new Investment Memo.

### **Objective #2: Offtake agreement for Halloysite project.**

We want to see an offtake agreement for the LRS halloysite project, following product qualification. This would firm up the prospect of LRS making near-term revenue from this project.

**[Memo Assessment - June 10th, 2022]: Grade = C.** this was not achieved in the first half of the year and we're hoping to see this in the second half of 2022. As a result, we think it would be unfair to give the company a lower rating than C for this objective.

### **Objective #3: Progress cattle rumen methane emissions reduction project**

Methane makes up only 10% of greenhouse gas emissions - but over a 20-year period, it is 80 times more potent at warming the world than carbon dioxide.

Agriculture, and cattle in particular, compose a big part of these methane emissions. LRS has committed \$3.2M in funding to a research organisation and engaged a former CSIRO Chief Research Scientist to explore the possibility for their high grade halloysite to reduce methane emissions from livestock, in particular cattle.

This project could help establish an additional end use for their resource and we want to see preliminary results from the research in 2022.

**[Memo Assessment - June 10th, 2022]: Grade = C.** While this project is expected to take some time to deliver, LRS has been fairly quiet with respect to this hence its C rating. We can understand the lack of updates on this project, given the lithium discovery made and shift in company focus.

## What could go wrong?

### **Exploration risk:**

There are no guarantees that LRS finds more lithium. Alternatively, LRS doesn't find enough lithium to justify a mine.

**[Memo Assessment - June 10th, 2022]: Grade = B.** LRS made a new lithium discovery which mitigates this risk significantly. LRS now needs to prove that the discovery can become a commercially viable lithium deposit worthy of development. Hence, the B rating. For us, a JORC resource would be when a company completely eliminates "exploration risk".

### **Market risk:**

Lithium prices have cratered before and its possible supply/demand dynamics change and in turn impact market sentiment to lithium exploration companies such as LRS.

**[Memo Assessment - June 10th, 2022]: Grade = A.** The lithium market is still fairly strong with prices for lithium carbonate trading only ~5% off all time highs. There is always a risk that lithium

prices fall off a cliff and we see a situation similar to ~2017-18. Working in LRS' favour is that it raised \$35M at a market peak. This gives LRS enough runway to continue to define its discovery. We think LRS has managed this risk really well.

#### **Production risk:**

The halloysite that LRS has may not be of sufficient quality for offtake partners or they may not be able to produce enough of it to make the deposit economic.

**[Memo Assessment - June 10th, 2022]: Unchanged.** This risk is still present given halloysite has not been sold to anyone yet.]

#### **Geographic risk:**

While the region of Brazil that LRS operates in is a mining friendly jurisdiction, political changes could alter that.

**[Memo Assessment - June 10th, 2022]: Unchanged.** This is still a risk factor that we have carried into our new Investment Memo.

#### **Funding risk:**

LRS had \$643k in cash at the bank as of 31 December 2021. As a result, we believe LRS will need to find sources of funding to continue its exploration and development activities. These may come through the exercise of options or a capital raise.

**[Memo Assessment - June 10th, 2022]: Grade = A.** LRS was running its cash balance relatively low going into the first drilling program at its Brazilian lithium project. LRS has now made a new discovery and raised \$35M off the back of it. This gives LRS a significant amount of breathing room and has completely transformed the company's balance sheet. We think LRS have mitigated this risk completely for at least the next 12 months.

## What is our Investment Plan?

We added more LRS to our position in early 2022 - we are holding to see what comes from the initial lithium drilling campaign and assays. If the share price runs we will look to sell down about 20% of our current position.

**[Memo Assessment - June 10th, 2022]: Grade = A.** Share price had a serious run on discovery, hit our points for partial de-risk so we Top Sliced and Took Profit - we are now left with a Free Carried position into the next phase (covered in the next Investment Memo).

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**Disclosure [as at 17th Feb 2022]:** The authors of this article and owners of Catalyst Hunter, S3 Consortium Pty Ltd, and associated entities, own 12,475,000 LRS shares at the time of writing this memo. S3 Consortium Pty Ltd has been engaged by LRS to share our commentary on the progress of our Investment in LRS over time.