



Resources

Former fund manager says this \$26m junior could be the next big thing in lithium

8 hours ago | [Special Report](#)

Special Report: Geologist Dr Chris Baker is best known for his time as an analyst and portfolio manager at Colonial First State and Sydney-based Caledonia, where he became a leading stock-picker in the junior and mid-tier resources space.

These days he works for Sydney-based advisory firm Bridge Street Capital Partners as an Executive Director and analyst.

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But he hasn't lost his appetite for picking potential gems in the junior resource sector.

Baker has recently identified junior lithium developer Liontown Resources (ASX: LTR) as one such opportunity, with what he describes as "ample capacity" for a re-rating of its share price as it advances its key lithium projects in Western Australia.

In a comprehensive initiation note issued last week, Baker has valued Liontown shares at 12c – a steep premium to their last traded price of 2.4c.

He sees Liontown's strong focus on grade, mine life and optimal metallurgical recoveries at its flagship Kathleen Valley lithium-tantalum project in WA as some of the key attributes that make it stand out.

"A recently released scoping study demonstrates that KV can become a moderately high grade, high margin, mid-tier producer and an attractive investment in the battery raw material sector," he wrote.

"A well-qualified LTR board and management team state they will focus on optimising metallurgical recoveries of spodumene concentrate, with careful attention to process plant design to avoid missteps of the earlier miners.

"The KV valuation (post-tax) is over A\$400 million using current bottom-of-cycle commodity prices."



Liontown Resources' Kathleen Valley lithium-tantalum project in WA. (Supplied)

Baker notes that the project is well located on granted mining leases some 300km north of Kalgoorlie, close to a major transport route and with access to power and gas infrastructure.

“EBITDA margins of >50% are assisted by relatively high lithium grades and by-product credits.

“Production levels of ~360ktpa spodumene concentrate is comparable with DFS projections for Pilbara's Pilgangoora project (Stage 1) at cash costs of just over US\$300/t.

“Capital intensity is comparable with recently commissioned projects. Recent market transactions (with the entrance of global lithium majors into the WA hard rock sector) suggests financing of this +A\$200m project is achievable.”



Core sample from Liontown Resources' Kathleen Valley project in WA. (Supplied)

Baker says a sell-down of equity in the project looks to be the most likely (but not the only) path to production. Discussions with strategic partners have already commenced.

Liontown has also just commenced a major new 16,000m step-out drill program aimed at extending the mine life from 9 to 12-15 years.

“During 2019 LTR will move Kathleen Valley to Pre-Feasibility,” he said. “This will see steady news-flow, including results from step-out drilling, metallurgical optimisation and offtake discussions.”

He also sees significant upside in the company's second lithium exploration project, Buldania, located east of Norseman, where a maiden resource estimate is expected in the first half of this year.

“With a market capitalisation of under \$30m, LTR represents deep value in the sector,” Baker wrote.

Liontown's Managing Director David Richards will be presenting to investors at the **Resources Rising Stars investor forums** in Sydney and Melbourne next week.

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