

Vulcan Energy Resources Limited

EV Materials

24 June 2022

Rating
SPECULATIVE BUY

Price Target
A\$23.00

VUL-ASX

Price
A\$5.00

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Stellantis steps up for equity

First direct equity investment by an auto OEM... so far

Vulcan has announced an A\$74m strategic investment by Stellantis. The deal sees VUL issuing Stellantis ~11.5m shares (8% of VUL) at a price of A\$6.62/sh, a 32% premium to the previous close. The investment follows on from Stellantis' [offtake agreement](#) that it signed last year and as far as we are aware the first major auto to directly invest in a listed lithium equity. We believe the investment is a strong signal that Stellantis has done its due diligence and is backing Vulcan to bring production online. It is also something we had been looking for in the current market, being the large autos seeking to move downstream and ultimately making more **direct investment** to secure supply.

Stellantis - One of the world's largest automakers

While the umbrella band of Stellantis isn't necessarily a mainstream auto name, it sells over 6m vehicles per year (5th in 2020 & 2021, 3rd in 2019) and its brands are well known, including Abarth, **Alfa Romeo**, **Chrysler**, **Citroen**, **Dodge**, DS, **Fiat**, **Jeep**, Lancia, Maserati, **Opel**, **Peugeot**, **Ram**, Vauxhal. Stellantis has been pursuing an electrified future as highlighted at [its battery day last year](#). It recently made headlines after flagging it will leave the European Automobile Manufacturers' Association (ACEA) at the end of 2022 and establish a Future of Mobility Forum. Given Stellantis' aggressive goals in electrification (100% in the EU by 2030) and the ACEA has traditionally been a lobby for higher margin ICE cars, we suspect a difference in options on the speed and future of direction of the industry may have influenced the decision.

Upstream footprint in Europe set to expand

Stellantis has been planning to vertically integrate in the EV supply chain and has flagged an increase in its battery factory capacity by 140GWh to 400GWh (~400kt LCE demand) by 2030 at five battery factories across Europe and [North America](#). One of Stellantis' brands, Opel, has several facilities in Germany, including those at Russelsheim am Main which is located to the north of Vulcan's projects. In our view this highlights the strength of Vulcan being located close to end use customers in Europe.

Pushing project elements forward

Since we last published on Vulcan, the Company has made good progress on business development and project execution; expanding its footprint into Italy where historic brine grades of 350ppm were recovered at flow rates of ~69l/s; listing on the Frankfurt Stock Exchange; signing a heat offtake; receiving positive Landau City Council engagement with the Council voting to support geothermal energy and lithium production in the district; it has [begun fabrication of its DLE Demonstration Plant](#) which is expected to begin commissioning over the 2H2022; and has commenced refurbishment of its drill rigs to commence drilling operations in late 2022.

Heat offtake a lower capital pathway to higher production and project awareness

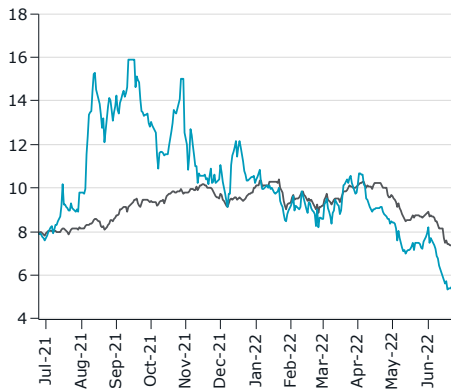
Earlier in the year VUL signed a 20-year agreement starting from 2025 with MVV Energie AG for 240 GWh of renewable heat. This is intended to supply households in Mannheim, outside Frankfurt, near VUL's project. This could allow **lower cost development** given there is no requirement for generation equipment. We also view this offtake as a strong community engagement point, given the current energy situation in Europe and the fact that a majority of current space heating is achieved using fossil fuels.

Cash backing at 43% gives Vulcan runway to build value

The lithium sector sell-off has impacted Vulcan's equity over the past few months; however, when considering VUL anticipated having €135m (A\$205m) in cash at end of JunQ22 (5B appendix estimate) and accounting for the A\$76m raised through Stellantis,

Market Data

52-Week Range (A\$) :	4.76 - 16.65
Avg Daily Vol (000s) :	687.39
Shares Out. (M) :	131.6
Market Cap (A\$M) :	658.2



— VUL.AU
— S&P/ASX Emerging Companies (rebased)
Source: FactSet

Priced as of close of business 23 June 2022

Vulcan is a European lithium development company progressing the Zero Carbon Lithium project in Germany. The development envisages a 40ktpa lithium hydroxide operation using DLE from geothermal wells which will also generate carbon free power. The process is expected to be carbon negative based life cycle analysis and if achieved, Vulcan would fundamentally change the carbon emission structure of the lithium industry.

Link to initiation: [Not unconventional... Untapped](#)

providing for cash reserves of A\$281m. This implies a cash backing of 43%! Ultimately we expect Vulcan to deploy this capital, delivering key catalysts and building value.

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Investment Recommendation

Date and time of first dissemination: June 23, 2022, 19:41 ET

Date and time of production: June 23, 2022, 19:41 ET

Target Price / Valuation Methodology:

Vulcan Energy Resources Limited - VUL

Our price target is set in line with our NAV with a 60% risk weighting. We use US\$17,500/t LiOH prices, 1.58 EUR:AUD exchange rates and discount rates of 8% for the lithium business and 5% for the energy business.

Risks to achieving Target Price / Valuation:

Vulcan Energy Resources Limited - VUL

Risks include pricing, delivery, resource size and grades, capex and opex estimates and production schedules.

Distribution of Ratings:

Global Stock Ratings (as of 06/23/22)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	645	68.25%	36.90%
Hold	129	13.65%	17.05%
Sell	11	1.16%	18.18%
Speculative Buy	155	16.40%	41.94%
	945*	100.0%	

*Total includes stocks that are Under Review

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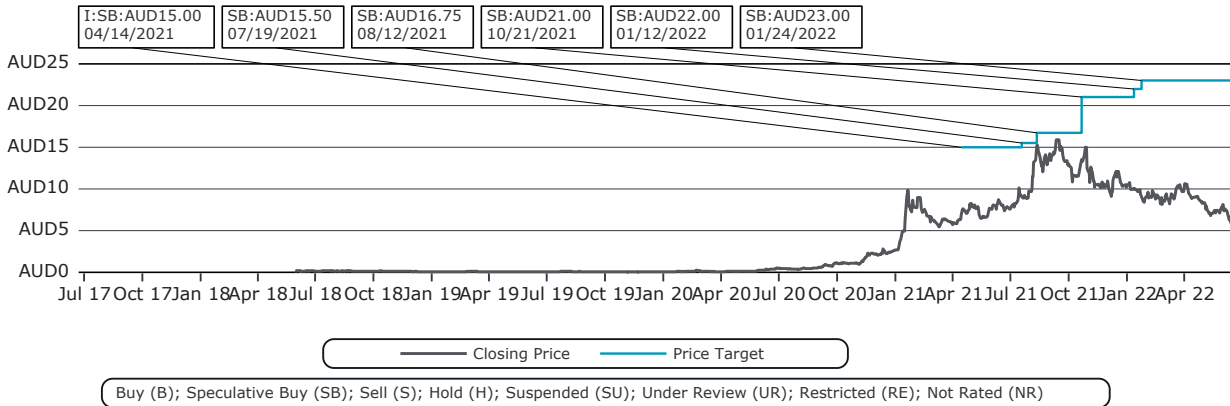
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Vulcan Energy Resources Limited Rating History as of 06/22/2022



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