

Nemaska Lithium Inc.

(NMX-T: C\$1.05)

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BUY

Target: C\$2.50 (from C\$3.00)

Focus Shifts to Construction and Phase I Operations

NMX-TSXV	NEW	LAST
Rating	-	BUY
Target	C\$ 2.50 ▼	C\$ 3.00
Projected Return	138% ▲	34%
DCF multiple	1.0x ▲	0.8x
10% DCF Corporate Value	C\$ 2.12 ▼	\$3.70
Cash and Debt	C\$ 0.33 ▲	-\$0.02
Additional Resource Value	-	\$0.04
NAV	C\$ 2.47 ▼	\$3.71
P/NAV	0.43x ▲	0.34x

Company Data

Last Price		\$1.05
52-week Range	\$0.95 -	\$2.44
Market Cap (\$MM)		\$800.1
Enterprise Value (\$MM)		\$780.9
Shares Outstanding - Basic (MM)		762.0
Shares Outstanding - FD (MM)		792.0
Avg Volume - 100d (000 shares/day)		2155.6
Cash (est.) (\$MM)		\$21.2
Debt (\$MM)		\$2.0
Working Capital (est.) (\$MM)		\$84.7

Forecast	2018E	2019E	2020E	LT
Spot LCE (US\$/t)	11,250	11,500	11,500	11,500
Spot Li-OH (US\$/t)	13,250	13,500	13,500	13,500

All Figures in C\$ Unless Otherwise Noted

Source: Company Reports, FactSet, Eight Capital

NMX-T: Price/Volume Chart



Source: Factset

Company Description

Nemaska Lithium is a Quebec-based developer focused on its 100%-owned Whabouchi Project. Its 500 tpa Phase I demonstration is fully financed, commissioned and is currently operational. A January 2018 FS update contemplates 20% higher production, increasing plant capacity to 33,000 tpa LCE. Nemaska has raised C\$1.1 billion and is currently in the construction phase for its Phase II mine and plant.

We recommend Nemaska Lithium as a BUY and lower our target to C\$2.50/sh (from C\$3.00/sh) after incorporating added dilution from the public financing of \$280MM and private placement of \$80MM at C\$1.00/sh. We increase our multiple from 0.8x to 1.0x applied to our 10% DCF, as financial risk overhang has largely been removed with the recent successful project financing package. We incorporated all facets of a recent project financing package and off-takes. Arrangements were largely as expected, although we expected ~\$60 MM less equity and it priced at \$1.12 rather than C\$1.00/sh, assuming that an earlier SoftBank deal had created a floor. Despite additional dilution, we believe working capital requirements and sales are now covered for the long haul and all attention can be placed on meeting construction and ultimately production milestones.

Nemaska is one of the few vertically integrated lithium companies that should be ready to take advantage of rising lithium prices over the next several years. Expected to be a low cost producer with near term cash flow, the strong management team recently financially de-risked Capex and Opex by aligning with long term world class partners in the financial, lithium and battery sectors. Phase I LiOH and LCE production has already provided proof of concept, and this should pay dividends as Phase II mining and processing ramps up.

Now a household name in the battery and lithium sectors and investment circles, the \$1.1 B financing package has closed, including a widely subscribed \$280 MM bought deal; additional \$80 MM equity to Quebec Government; US\$350 MM bond sale; US\$150 MM lithium stream; and \$99 SoftBank equity/off-take. This raise covers \$801 MM in Capex and the remaining \$300 MM working capital should make it through start-up. Project financing secured, financial de-risking of operations also appears covered as +80% of Phase II plant LCE production is already covered. CEO Guy Bourassa stated "We haven't even started yet and are sold out". Senior lithium miner FMC, battery makers Johnston Matthey and NorthVolt, high tech investor Softbank and Orion Mine Finance are all in. And with this recently arranged off-take with China's General Lithium for spod con, management can now focus on construction.

Early revenue from spodumene con. Whabouchi open pit mine and concentrator should be built within 12 months (Q3/19), and there is almost a year lag until the electrochemical plant is ready to accept spod con (Q3/20). We envision a recent spod con sales arrangement with a Chinese converter during the interim to be of utmost importance. At full production, we estimate that could be worth ~\$213 MM in revenue at ~70% gross margins. CF may also help take heat off any potential electrochemical plant ramp up kinks in 2020.

Off-takes cover +80% of 33,000 tpa LCE production. Operational de-risking comes via off-takes and pre-paid lithium streams: FMC (FMC-N, Not Rated) & Johnson Matthey JM(AT-L) have off-takes for ~42% of production or ~14,000 tpa LCE; SoftBank (SFTBF-N, Not Rated) has an option for up to 20% of production or 6,600 tpa LCE; Northvolt has a take-or-pay off-take for 3,500 to 5,000 tpa LiOH (3080 to 4400 tpa LCE) over five years, equivalent to 9.3% and 13.3% of production; Orion Mine Finance (Not Rated) has a 5,000 tpa LCE lithium stream, and while not an off-take it provided two tranches of project financing.

Easy story to follow. Whabouchi high-grade Li hard rock deposit hosts 37 MM t @ 1.4% Li₂O in reserves. Mining of 213,000 tpa @ 6.25% Li₂O is expected to begin in Q3/19. An 11,000 t bulk sample has already sourced 1,100 t of spod con production @ 6.25%. Shawinigan electrochemical Phase II plant is anticipated to produce 23,000 tpa lithium hydroxide at US\$2,811/t, and 11,000 tpa lithium carbonate at US\$3,403/t. Given its low cost mine production, Nemaska has the advantage of sourcing concentrate at prices as low as 27% that of its peers. Phase I plant is operating and should help with final engineering, perfecting the flowsheet, training staff, and providing toll milling revenue over the long term.

NEMASKA LITHIUM INC.				NMX-T		C\$ 1.05
David A. Talbot, Director, Mining Resean	Rating	BUY	C\$ Target	\$2.50	Shares O/S (MM)	762.0
dtalbot@viiicapital.com			C\$ Close	\$1.05	Float (MM)	666.0
Joseph Fars, Associate Analyst					Fully Diluted Shares (MM)	792.02
jfars@viiicapital.com			12-month return	138%	Basic Mkt. Capitalization (\$MM)	800.12

All figures in C\$, unless stated otherwise

EVALUATION DATA				
Year-end Jun.	2016A	2017A	2018E	2019E
EPS	(\$0.03)	(\$0.03)	(\$0.01)	\$0.00
P/E	N/A	N/A	N/A	N/A
CFPS before changes in WC	(\$0.04)	(\$0.01)	(\$0.04)	(\$0.03)
P/CF	N/A	N/A	N/A	N/A
market cap/reserve t				\$624.6
enterprise value/reserve t				\$608.0
market cap/resource t				\$643.03
enterprise value/resource t				\$625.95

ASSUMPTIONS				
	2018E	2019E	2020E	2021E
Li Carbonate US\$/t	12,633	11,250	11,500	11,500
Li Hydroxide US\$/t	15,496	13,250	13,500	13,500
Exchange US\$/C\$	0.80	0.80	0.80	0.83

Eight Capital Modelled Reserves and Other Mineralization (MM t)

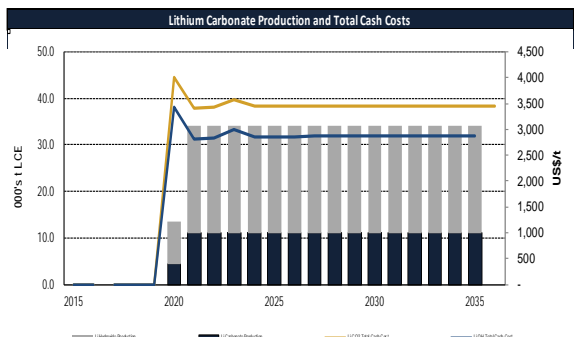
RESERVES & RESOURCES				
(as of Jan-18)				
Ownership	Tonnes MM t	Li2O Grade %	Contained Li2CO3 100% Basis 000's tonnes	NMX Share
Proven and Probable Reserves				
Whabouchi	100%	37.0	1.4%	1,281
Total Reserves		37.0	1.4%	1,281
Measured and Indicated Resources (as of May 2016)				
Whabouchi	100%	28.0	1.5%	1,070
Total M&I Resources		28.0	1.5%	1,070
Inferred Resources				
Whabouchi	100%	4.7	1.5%	174
Total Inferred Resources		4.7	1.5%	174
TOTAL RESOURCE		32.7	1.5%	1,244

WHABOUCHE PRODUCTION ESTIMATES (kt)					
Year-end Jun.	2017E	2018E	2019E	2020E	2021E
Li Hydroxide	0.0	0.0	0.0	9.2	23.0
Li Carbonate	0.0	0.0	0.0	4.4	11.0
Sub total	0	0	0	14	34

WHABOUCHE TOTAL CASH COST ESTIMATES (US\$/t)					
Year-end Jun.	2017A	2018E	2019E	2020E	2021E
Li Hydroxide	0	0	0	3,438	2,811
Li Carbonate	0	0	0	4,000	3,403
Wt. Ave.	N/A	N/A	N/A	3,620	3,003

NET ASSET VALUE				
	0% NAV (C\$MM)	C\$/share	10% NAV (C\$MM)	C\$/share
Corporate DCF (10%)	2,025	6.47	665	2.12
Cash and Debt	103	0.33	103	0.33
Exploration & unmodelled Resources	5	0.02	5	0.02
Total	2,133	6.81	773	2.47
Eight Capital DCF Target Multiple				1.0x
Share Price Target				C\$ 2.50

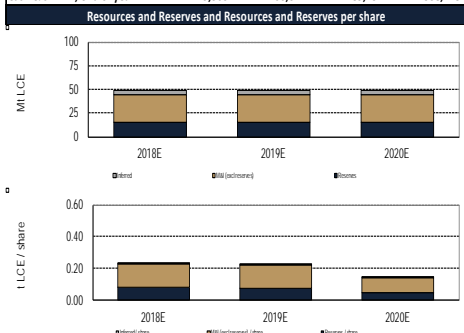
Target Price Sensitivity to Long-term Lithium Hydroxide Price Assumption					
Target (C\$/share)	8,000	10,000	12,000	14,000	16,000
0% Discount	5.97	6.45	6.93	7.41	7.89
5% Discount	3.32	3.58	3.84	4.11	4.37
10% Discount	2.18	2.35	2.51	2.67	2.83
15% Discount	1.63	1.74	1.85	1.97	2.08



BALANCE SHEET				
(000\$)				
Year-end Jun.	2016A	2017A	2018E	Q3/18
Assets				
Cash & ST Investments	19,563	66,342	289,251	21,250
Other Current Assets	1,672	14,551	10,830	10,830
Current Assets	21,235	80,894	300,081	32,080
Mineral Properties	9,583	108,690	337,857	150,357
Other non-current Assets	32,697	12,234	33,858	33,858
Total Assets	63,515	201,818	671,797	216,295
Liabilities				
Current Liabilities	4,116	20,987	18,082	16,382
Capital lease / LT Debt	-	-	-	-
Other non-current Liabilities	11,693	26,382	26,454	28,520
Total Liabilities	15,809	47,369	44,537	47,902
Capital Stock	75,740	202,815	667,157	208,157
Retained/Deficit	(28,033)	(48,366)	(39,897)	(38,464)
Total Shareholder Equity	47,707	154,449	627,260	169,693

EARNINGS SUMMARY				
	2018E	2019E	2020E	2021E
Revenue				
Lithium	-	-	-	-
Other Revenue	31	360	256	69,020
Total Revenue	31	360	256	69,020
Lithium costs	-	-	-	46,199
Other Costs	3,999	3,435	2,216	2,000
DD&A	10	-	-	-
Exploration	-	-	-	13,900
S, G&A	2,059	6,110	7,570	7,570
EBIT	(6,037)	(9,184)	(9,529)	(649)
FX Gain	-	(308)	(171)	-
Interest	(8)	(18)	(18)	-
Writedown of min. properties	-	-	-	-
EBT	(6,045)	(9,510)	(9,719)	(649)
less Tax	-	-	-	-
Net Income (reported)	(6,045)	(9,510)	(9,719)	(649)
Average shares (MM)	202.8	313.1	512.0	876.6

STATEMENT OF CASH FLOWS				
(000\$)				
	2018E	2019E	2020E	2021E
Net Income (000's)				
D, D&A	10	(10,044)	(2,700)	(649)
Future income taxes	-	83	-	-
Writedown of min. properties	-	-	-	-
FX Gain	-	-	(7,811)	-
Change in working capital	(692)	(36)	876	-
Other Operating	(1,935)	1,534	2,888	-
Total Operating CF	(8,661)	(8,463)	(6,747)	(649)
Short term investments				
Mineral Properties	57	-	(4,603)	-
Acquisitions	(6,943)	(78,197)	(235,698)	(400,594)
Increase in Investments	1	729	-	-
Other Investing	-	-	250	-
Other Investing	573	250	(9,561)	-
Total Investing CF	(6,312)	(77,217)	(249,613)	(400,594)
Equity financing				
Debt Issue	23,745	123,836	474,613	195,111
Debt Repayment	-	-	-	455,000
Other financing	-	-	-	-
Other financing	3,698	8,625	4,930	-
Total Financing CF	27,443	132,461	479,543	650,111
Foreign Exchange effect	-	(2)	(277)	-
Change in cash	12,470	46,781	223,184	248,868
Cash & ST Inv., end of year	19,563	66,342	289,251	538,118



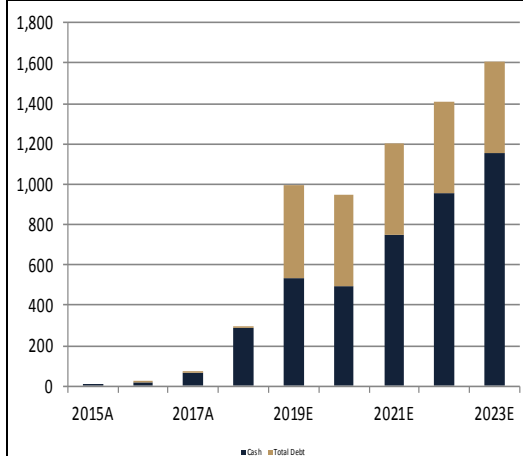
Nemaska Lithium Inc.

Net Asset Valuation at Eight Capital Price Deck (C\$)

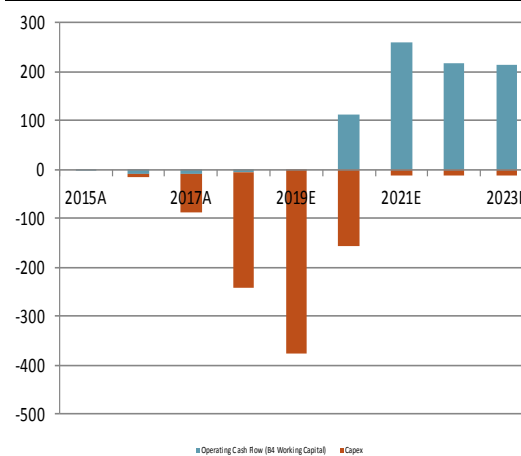
	Target Setting NAV			NAV at Various Discount Rates					
	Discount Rate	(\$MM)	(\$/Share)	0%		5%		15%	
		(\$MM)	(\$/Share)	(\$MM)	(\$/Share)	(\$MM)	(\$/Share)	(\$MM)	(\$/Share)
Mining Assets									
Whabouchi (100%)	10%	1,407	2.01	1,647	5.26	984	3.14	423	1.35
Total Mining Assets		1,407	2.01	1,647	5.26	984	3.14	423	1.35
Other Assets & Expenses									
Cash		103	0.33	103	0.33	103	0.33	103	0.33
Debt		(1)	(0.00)	(1)	-0.00	(1)	-0.00	(1)	(0.00)
Resources		5	0.02	5	0.02	5	0.02	5	0.02
Exploration, G&A, Other	10%	36	0.12	378	1.21	92	0.29	41	0.13
Net Other Assets		144	0.46	486	1.55	200	0.64	149	0.48
Net Asset Value		1,552	2.47	2,133	6.81	1,184	3.78	572	1.83
Share Price			1.05		1.05		1.05		1.05
P/NAV			0.43x		0.15x		0.28x		0.57x

Financial Forecasts at Eight Capital Price Deck (MM C\$)

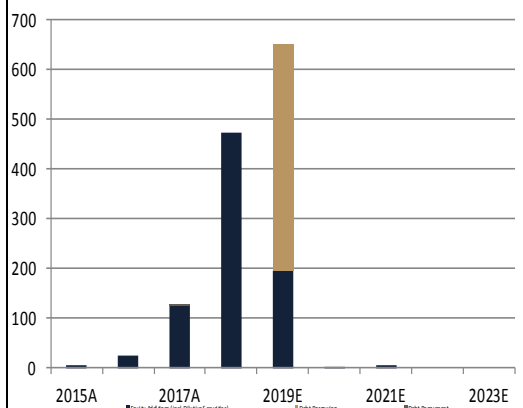
Cash and Debt



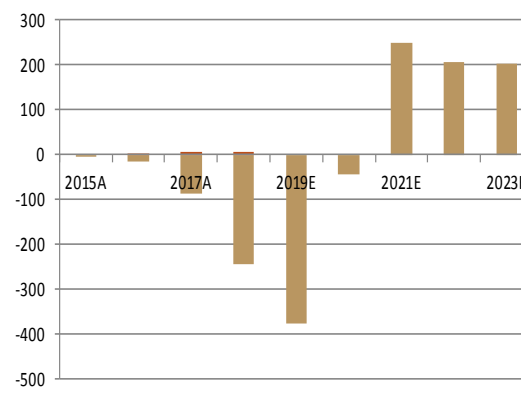
Operating Cash Flow and Capital Spending



Changes in Debt and Equity



Free Cash Flow and Common Share Dividends



Source: Company Reports, FactSet, Eight Capital

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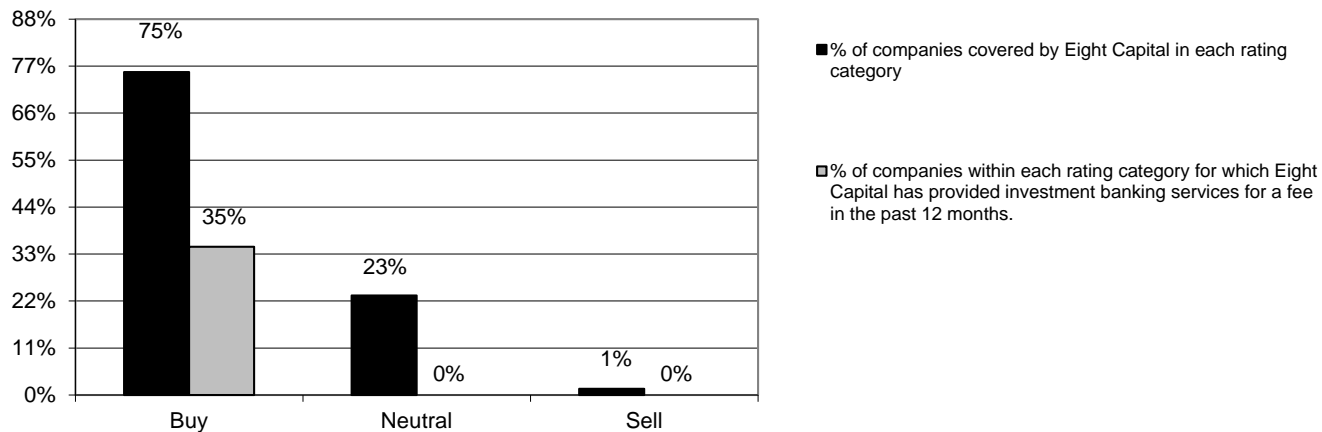
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