



Prospect Resources Ltd (PSC.ASX)

Rare earths become third project in portfolio

Event:

- **New project; Other updates; PT change.**

Investment Highlights:

- **51% earn-in of REE project.** PSC recently announced it entered into an option agreement with Antler Gold Inc (ANTL:TSXV) to acquire 51% of the latter's Keysa Rare Earths Project in Zambia. Under the agreement PSC has up to two years to acquire its 51% via consideration and expenditure totalling US\$3.05M.
- **Surface samples and geological mapping promising.** Rock chip samples from ANTL include TREO up to 6,559ppm and with decarbonisation magnet REEs of Nd+Pr averaging 29% of TREO. PSC has designed a 1,500m drill program based on mapping and soil samples set to begin 3Q2023, subject to approvals. The REE is hosted in carbonatite and the project comprises a large -scale exploration licence covering 1,053ha.
- **Diversifies project, commodity, and sovereign exposure.** Keysa provides PSC exposure to REE, sitting alongside its two lithium projects Step Aside and Omaruru. These two commodities are the most desired in the global push to green energy (EVs, wind). Finally the Zambia presence gives PSC a foothold in a third southern Africa nation, alongside Namibia (Omaruru) and Zimbabwe (Step Aside), a region where management has demonstrated expertise.
- **Step Aside progresses.** Recent drill results from Step Aside included satisfactory Li₂O grades of 1.0-1.6% at modest intersections ranging from 3m to 6m, from depths of 56m to 121m, with pegmatites still open at strike and depth. A Phase 3 program will be undertaken targeting lateral and strike extensions. A maiden Resource is targeted for 4Q2023, and a PEA in 1Q2024.
- **Stand-alone project justification not necessary.** While intercept widths to date have been modest, it's important to remember that Step Aside lies only 8km north of the Huayou-owned Arcadia mine (purchased from PSC), providing an option where PSC does not need to develop Step Aside as a stand-alone project.
- **Omaruru also moving ahead.** Meanwhile the company is targeting a Resource in the 4Q also at Omaruru (PSC 20%, earning potentially 85%), with Phase 1 drilling also completed at Karlsbrunn deposit and met work underway. Meanwhile the Brockman deposit will have further drilling.
- **Well-funded.** The company had \$28.5M cash end March, ample headroom to advance its projects as well as participate in further project M&A.

Earnings and Valuation:

- **Valuation below peers.** PSC's EV is only \$32M vs select peer ASX and TSX Pre-JORC Resource explorers (ex-Patriot Battery Metals) average of \$48M. We think PSC should at least trade in-line with average given management track record, diversified project portfolio, and demonstrated mineralisation.

Recommendation:

- **We maintain our Buy and raise our 12-month price target to \$0.19 from \$0.16, based on average pre-Resource peer valuation.** Catalysts include: 1) Exploration progress on Omaruru, Step Aside, and Keysa; 2) Maiden JORC Resources at Omaruru and Step Aside; and 3) Further lithium project M&A.

Disclosures

The analyst owns 60,400 PSC shares.
 Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 60,400 PSC shares.
 Cranport Pty Ltd does not own PSC securities.
 Refer details end of report.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$0.190
Previous	\$0.16
Share price (A\$)	\$0.130
ASX code	PSC
52 week low-high	\$0.045-0.245
Valuation - risked (A\$/share)	\$ 0.190
Methodology	EV comparable

Capital structure

Shares on Issue (M)	462
Market cap (A\$M)	60
Net cash (debt) (A\$M)	28
Diluted EV (A\$M)	32
Ave daily volume ('000)	15,333

Substantial shareholders

	%
Eagle Eye Asset Holdings Pte Ltd	15.3%
Mitsubishi UFJ Financial Group Inc	6.8%
Morgan Stanley and subsidiaries	6.8%
JP Morgan Chase & Co and its affiliates	5.4%

Board

Mark Wheatley	Non-Executive Chairman
Sam Hosack	Managing Director
Gerry Fahey	Non-Executive Director
Zivanayi (Zed) Rusike	Non-Executive Director
Gaurav Gupta	Non-Executive Director
HeNian Chen	Non-Executive Director

Share price graph

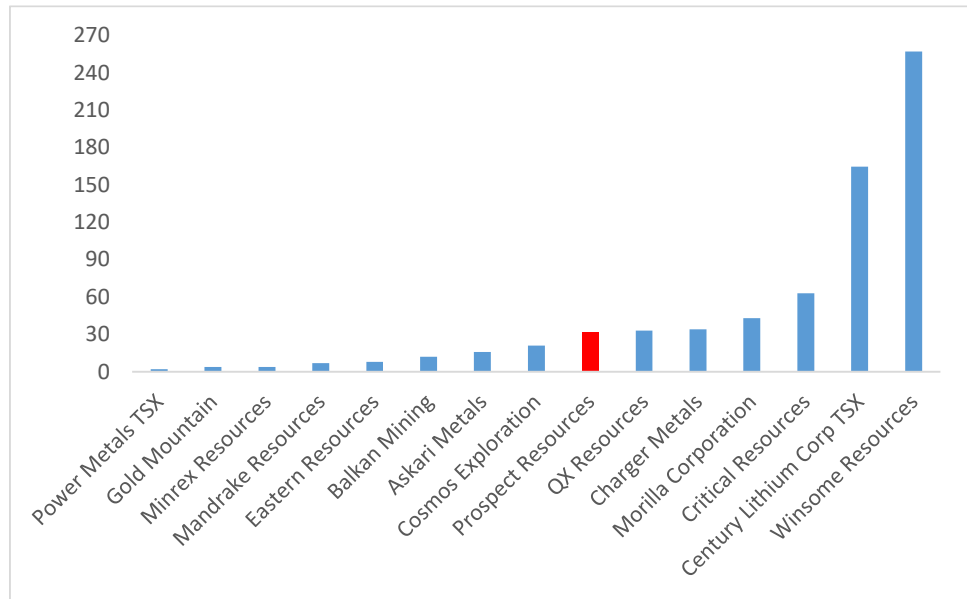


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Figure 1: EV of ASX & TSX Pre-Resource Lithium Explorers (A\$M)



Source: IRESS; Companies; Foster Stockbroking estimates. Excludes Patriot Battery Metals.



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Disclosure review. All the disclosures in the report have been reviewed and checked by Ellie Bedoyan, Corporate.
