18 January 2024

VSA Morning Miner

This Morning's News

Alkemy Capital (ALK LN)#

Alkemy Capital (ALK LN) has provided an update highlighting the progress made in 2023 towards building lithium refining and processing capacity in the UK.

Last year, ALK achieved important milestones with respect to securing feedstock, planning permission and publishing the engineering study for the Port Hedland strategy where the company has been allocated land within the Boodarie SIA. The SIA is an Australian Government Initiative designed to incentivise downstream mineral processing within Australia reducing the country's interdependence on China.

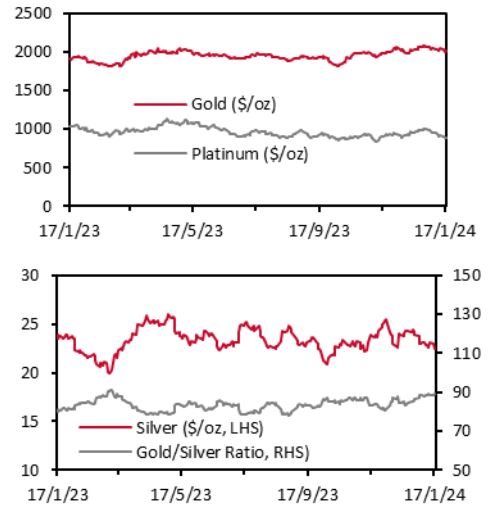
With published studies and a feedstock agreement, we believe the building blocks are in place to progress the project financing which is now the company's major aim. The feedstock agreement was not binding at this stage but we would only expect this to become a binding commitment in tandem with the financing process and by using a trader (Wogen), the company is not exposed to reliance on a single project's development and execution strategy.

The sharp fall in lithium carbonate spot prices which have now pulled back to US$13,400/t is already causing supply to contract. This is not just in the high-cost Chinese lepidolite and African DSO segments which has been significant already, but we note price impacts in Australia as well with Finniss on care and maintenance. There is also disruption in Chile which is unrelated to pricing. This downturn is very different to the last cycle where spodumene producers built up inventories of unsold material over months before halting production. Last year, China's EV demand was up 31% YoY and China's general manufacturing activity has been steadily recovering over the last twelve months. Given the supply response already, this should shorten the downturn but until larger, lower-cost, more sustainable projects come online, price volatility will be a feature of the market.

Unlike smelters in base metals markets the premiums associated with specialty chemicals are more resilient in downturns than in commodity metal markets. While spot prices are a useful barometer of sentiment for lithium equities they represent the marginal cost of lithium not the high quality material being procured by battery manufacturers; the area of the market targeted by ALK. This is compounded by the shortage of Western refining capacity and consequently the backdrop for TVL remains firm, in our view.

We reiterate our Speculative Buy recommendation and £15.30/sh. target price.

One-Year Charts



LME prices (US$/lb)	Last Close	Day % Chg	-1 Year % Chg
Aluminium	2,131	-1.5%	-18.4%
Copper	8,174	-1.1%	-12.3%
Lead	2,031	-2.3%	-7.2%
Nickel	15,839	-0.4%	-42.7%
Zinc	2,448	-3.1%	-28.5%

NOTE: *#Indicates VSA house stock.*
SOURCE*: Eikon, as of last close.*

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Stock Information

Stock	BBG TKR	Exchange	Currency	Mkt Cap (m)	Last Close (p)	Rec	TP	Date of Recommendation
Alkemy Capital	ALK LN	LSE	£/p	7.9	0.90	SPEC BUY	15.30	14/06/2022

***NOTE:** #VSA house stock. **SOURCE:** Eikon, VSA Capital estimates. Pricing as of last close.*

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Equities breakdown: 18/01/24	BUY	SPEC BUY	HOLD	SELL
Overall equities coverage	90%	10%	0%	0%
Companies to which VSA has supplied investment banking services	100%	100%	n/a	n/a

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