Mining

Newest, largest lithium monster takes flight as Firefinch unlocks US$170 million with JV partner Ganfeng

The development of the monster Goulamina Project in Mali is off the ground after Aussie-listed Firefinch formalised its JV with China's Ganfeng overnight.

The transfer of the Goulamina exploitation licence to the JV was the last step in the process to complete the partnership, unlocking US$170 million in investment from the Chinese lithium giant.

US$130 million in cash from Ganfeng will now flow into the JV company, with US$39m to be released from escrow and a further US$91m to be transferred by Ganfeng in the coming days.

A further US$40m in Ganfeng debt or US$64m in third party debt will also be secured by Ganfeng, which will support the construction of the 506,000tpa spodumene operation.

The historic dig is planned to open in 2024 after the final investment decision was made by **Firefinch (ASX:FFX)** and Ganfeng in January.

Goulamina will be one of the largest hard rock lithium projects in the world, with Stage 2 expansion expected to take its production profile up to an enormous 880,000tpa.

The finalisation of the JV will also set the stage for the demerger of Firefinch's 50% share in Goulamina into Leo Lithium, a new ASX-listed entity the company is confident will help it capture the value of the world class asset.

"It certainly removes any lingering doubts anyone might have had about whether the JV would be formalised, whether the funding would flow and whether we would get the licence transferred in Mali," Firefinch managing director Mike Anderson told *Stockhead*.

"We didn't doubt any of those steps for a moment, but it is nice to be in a position to make today's announcement just to create that certainty and have a solid platform to move on for both Firefinch and Leo."

The project already secured the support of the Malian Government, which issued a "letter of non-objection" to the transaction in September.

Leo poised to roar

Firefinch shareholders will retain exposure to Goulamina with a 20% stake in the Leo Lithium spin out and an in-specie distribution of the remaining 80% of the company.

Anderson expects the notice of meeting for shareholders to approve the demerger will arrive by mid April "at the latest", the new entity to be listed by mid-June if it all goes to plan.

The new company will be run by former Galaxy Resources boss Simon Hay, who called the announcement of the JV's completion a "tremendous step along the path to listing Leo Lithium and developing Goulamina as one of the world's largest lithium producers."

"The combined debt and equity funding package of at least US$170 million from Ganfeng means Leo can now accelerate work on the Goulamina Project.

"Behind the scenes we have been working with our partner Ganfeng, who will provide funding, offtake and operational support to significantly de-risk development. Assuming the approval of Firefinch shareholders, the demerger will bring Leo Lithium to life.

"I'm incredibly excited about the opportunity ahead and look forward to hitting the ground running come listing."

Anderson says the Leo Lithium spinout will help capture the additional value for shareholders he and Hay see in the world class asset.

"A big part of the rationale is to give Goulamina its independence to be valued alongside some of its peers and we wouldn't be alone, neither Simon nor I, in thinking that our projects are undervalued," he said.

"The numbers speak for themselves, Goulamina has had a significant value uplift in the last 12 months or so.

"The definitive feasibility study back in December provided huge evidence of its value.

“But we still believe there’s a significant gap to be closed. I think a number of the analysts believe that too and we believe that providing this pure lithium play is part of the key to unlocking that value gap.”

‘Extremely conservative’

Early works have already started at Goulamina with the procurement and tendering of long lead items under way and the appointment of EPCM contractors expected soon.

It is a project of immense scale and potential value, with a post tax NPV of $4.1 billion and remarkably high internal rate of return of 83% on the updated numbers released in an expanded DFS in December.

For context, the IRR needed to sign off on the FID was just 15%.

Anderson says it is one of the world’s best undeveloped projects.

“Goulamina is right up there as one of the world’s best undeveloped projects at this stage and will be one of the next projects to be developed,” he said.

“At the scale that it will be brought into production, producing 500,000t of spodumene concentrate per annum in stage one and then we demonstrated the intent to go to stage two quite quickly and up to 800,000t, that’s top three projects in the world.”

Importantly, prices contained in the DFS are extremely conservative when compared to the record US$5000/t some lithium converters are paying on spot prices for lithium concentrate right now.

“With the backdrop of current lithium prices, it’s just an incredible value proposition,” he said.

“We modelled our DFS updates on US$1250/t spodumene for the next five years and US$900/t beyond that.

“Spot prices are above US$5000/t today, not that we expect to be hugely exposed to spot market, but our offtake contract with Ganfeng sees us get pretty healthy prices linked to the downstream chemical prices.

“So we’re very confident that in this price environment Goulamina will be a hugely profitable venture not only in stage one, but certainly moving on to stage two, and will provide the platform for Leo to grow.”

The sky appears to be the limit with analysts tipping ongoing supply shortages for lithium as electric vehicle production and sales boom exponentially.

In time, Anderson said Leo could look at additional acquisitions and downstream processing possibilities.

Ganfeng deal shows Goulamina’s high status

The finalisation of the JV demonstrates Ganfeng’s own conviction in the strategic importance of Goulamina as one of the world’s largest lithium companies.

“We are very pleased to have cemented our partnership with Firefinch, and soon Leo Lithium, at Goulamina,” Ganfeng vice chairman Xiaoshen Wang said.

“We believe this project is of significant global importance to the lithium supply chain and look forward to supporting the development of the project as we jointly bring the Goulamina into production.”

Anderson said Ganfeng has been expanding its downstream processing capacities in preparation for the development and eventually the expansion of the Goulamina mine.

“I think it’s a major part of their business, not withstanding they’re a significant company and they’ve invested in a number of other projects,” he said.

“But I think that demonstrates their belief in the long term prospects for the lithium business. Most people are now very convinced by the electric vehicle thematic and the battery thematic.

“When you look around, analysts do seem unanimous in their view that supply is struggling to keep up with demand.

“So any new project that can come online in the sorts of timeframes that we’re talking about for Goulamina – it should be producing concentrate within the next two years – that’s pretty material.

“That’s part of the near-term horizon for them as they look to maintain their position as the world’s leading lithium chemicals producer.”

Leo to unlock value in Firefinch

The Leo demerger will give its parent company Firefinch a sole focus on West African gold mining, as it looks to return the historic Morila gold mine in Mali to its former glory.

With FFX restarting mining at the Morila Super Pit, once one of the largest and highest grade gold mines in the world, it expects to ramp up from a production level of 46,000oz in 2021 to a 100,000ozpa run rate this year and a 200,000ozpa runrate by 2024.

Anderson said the finalisation of the Goulamina JV and Leo demerger would help focus its attention on unlocking the latest potential of the mine once termed “Morila the Gorilla”.

“We’re well on our way with Morila already having raised our capital last year we’ve given ourselves the funding that we need to get back into the heart of the Morila ore body,” he said.

“We’re busy with the pre-strip on the western side of Morila as we speak, we’re doing a lot of drilling. We’ve just increased our intent if you like with another couple of rigs about to arrive and it’s all about unlocking the latent potential of this ore body, which we believe is massive.

“We’ve had some really exciting results already in the few months that we have been drilling and we’re far from done yet with 10 metres at 34 grams per tonne, another five metres at 30.

“It’s open to the west, the north and the east and we still have to do justice to the underground potential which we believe at those grades is significant.”

With FFX expecting to be cashflow positive next year and its 20% of Leo expected to bolster the heft of FFX's balance sheet, Anderson views the demerger as an avenue to growth for Firefinch as well as Leo.

"It gets to be valued as a pure play, we expect to be cashflow positive next year," he said.

"And the Leo investment provides, if you like, a bit of a war chest for our own M & A ambitions.

"We are setting our stall out to become the next mid-tier multi-asset gold producer in West Africa. That's a pretty exciting proposition for people."

Double the value?

Firefinch has been a big mover in terms of ASX lithium and gold stocks over the past year.

It is up 352% in the past 12 months, giving the firm a market cap of almost $1.2 billion, having traded as low as 4c a share back in March 2020 when lithium prices hit their recent lows.

FFX stock is now buying almost $1, but many analysts still say it has room to move.

It became the subject of one of this year's most surprising stock endorsements last week when short selling research house J Capital, known for trying to drive the value of "overpriced" stocks it reports on down, said it was long on Firefinch.

In fact, it views the company's value as being between $1.68 and $2.28 billion, a 70-130% upside even with conservative project estimates.

"I know there were a few people nervous when they saw J Capital had published a report on us but that nervousness didn't last long when they were very pleasantly surprised to see they thought we were only worth half of what we should be," Anderson commented.

"That's them feeding back to us our beliefs. We certainly believe that that value uplift could be as sizeable as that when you look at some of our peers.

"I think people are starting to take real notice of this company and both its assets which is our job in a competitive space to demonstrate to people the value proposition for investing in Firefinch today and ultimately in Firefinch and Leo."

SOURCE: https://stockhead.com.au/resources/newest-largest-lithium-monster-takes-flight-as-firefinch-unlocks-us170-million-with-jv-partner-ganfeng/