

# Specialty Minerals and Metals

Australian Equity Research  
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## Euro battery policy setting the standard

The EU Commission has put forward a proposal to modernise EU legislation on batteries, part of the broader European Green Deal. The legislation aims to ensure batteries sold in the EU market minimise environmental impact, are high-performing, safe, sustainable along their entire lifecycle, have traceability of raw materials, and that they are collected, repurposed and recycled. The legislation lays the foundation for a cleaner, more self-sufficient and sustainable battery industry. If adopted, key requirements include:

- **By 2023:** Batteries must meet performance and durability standards. Traceability to monitor production and raw material inputs must be documented. **From 2026** traceability monitored via new technologies such as the digital '[Battery Passport](#)'.
- Minimising the carbon footprint of the entire battery chain:
  - **Stage 1: 2024** only rechargeable industrial and electric vehicle batteries that have a **quantified carbon footprint** declaration, can be placed on the EU market. The declaration will be required to be displayed on the battery;
  - **Stage 2: 2026** batteries shall be **subject to classification** into carbon footprint performance classes; and
  - **Stage 3: 2027** there will be **maximum life cycle carbon footprint threshold** that batteries will need to comply with in order to be sold into the EU market. Minimum recycled content limits are placed on cobalt, lithium and nickel, with disclosure of content in batteries.
- **2030s:** Minimum content of recycled materials set, requirements of recycle collect rates of >70% and increased recycling efficiency. As battery volumes lift higher recycled material requirements are implemented.

The previous EU Battery Directive was established in 2006 with a large focus on recycling and the banning of certain batteries in certain applications (Pb, Ni/Cd, Mercury). The proposed legislation will align the battery industry with EU goals of carbon-neutrality by 2050. It will also create more legal certainty, helping support large-scale investments in the production of batteries, and battery raw materials, in the fast growing EV market. It may also preferentially select visible supply chains (EU, Korea, Japan, USA) over those connected to China, where emissions and traceability is questionable.

This continues to demonstrate the European push to become a coordinated leader in the Li-B supply chain ([2020 recharge - time to call the bottom, More manganese please](#)). As standards lift in the EU, the rest of the world may follow to ensure they aren't 'locked out' of the market. We anticipate the US to follow suit and industry participants to begin quantifying and qualifying their impact and traceability. Precedent has been set where laws change the auto industry and spread globally; 1970s US Clean Air Act limiting hydrocarbon, carbon monoxide and nitrogen oxide emissions leading to widespread catalytic converter use; the removal of lead from fuel; and the 1990s US limits on sulphur in diesel.

We believe this will be a strong positive for clean, green and ethically traceable producers of battery raw materials, in particular those within the EU. We highlight the following ASX exposures: **Euro Manganese (EMN-ASX: \$0.43 | SPEC BUY, TP \$0.55 | Tim Hoff)** is a Czech project with strong ESG credentials. The proposed recycling standards don't include Mn as it is not amenable to recovery and focused on higher cost Co, Ni and Li. **Ioneer (INR-ASX: \$0.28 | SPEC BUY, TP \$0.40 | Tim Hoff)**, which we believe will set the standard for low cost, low emission lithium hydroxide production.

Other European projects with an intention to become part of the Li-B supply chain include: Infinity Lithium (INF-ASX | Not Rated) is developing the integrated San Jose Lithium Hydroxide Project in Spain; Vulcan Energy (VUL-ASX | Not Rated) is developing the Zero Carbon lithium geothermal brine operation in the south-west of Germany and European Metal Holdings (EMH-ASX | Not Rated) is developing the integrated Cinovec lithium/tin project in the Czech Republic.

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### Investment Recommendation

Date and time of first dissemination: December 16, 2020, 00:57 ET

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### Target Price / Valuation Methodology:

Euro Manganese Incorporated - EMN

Our A\$0.55/share price target is based on a NAV/share approach, applying 40% risking to our project NPV12% of C\$484m to account for development, permitting and finance risk.

ioneer Ltd - INR

We value INR on a fully financed NAV basis using a US\$15,000/t LiOH, 0.72 AUDUSD and 7% WACC, net corporate costs and cash.

### Risks to achieving Target Price / Valuation:

Euro Manganese Incorporated - EMN

Financing risks: Our analysis suggests that EMN will require additional capital to fund the development costs for the Chvalitice Manganese project. As a pre-cashflow company, EMN is reliant on equity/debt/external capital to fund capital commitments, and there is no guarantee that accessing these markets will be achieved without dilution to shareholders. Furthermore, accurate estimates of capital costs for the project remain subject to completion of pre-feasibility and feasibility studies, which may see capital requirements exceed our model assumptions. There is no guarantee that studies will result in a positive investment decision for the project.

Operational risks: Once in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical (meeting design recoveries within a complex flowsheet), materials handling and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets and negatively impact valuation. Further, the

product purity may differ from initial test work interpretations which can also materially impact product acceptance by customers and therefore earnings from forecast production.

**Exploration risks:** Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with exploration techniques and lack of accuracy in interpretation of geochemical, geophysical, drilling and other data. Our model assumptions include a significant amount of Indicated, Inferred and assumed resources, which may or may not ultimately be proven to be economic and converted into Reserves.

**Market risks:** EMN is involved in the development of a high purity product into a sector that is projected to have rapid growth. Given that EMN's level of proposed production is close to the current global supply, market discovery will form a large part of sustaining the potential earnings of the CMP. Commodity price and currency fluctuation The company as a near term manganese producer is exposed to commodity price and currency fluctuations, often driven by macro-economic forces including inflationary pressure, interest rates and supply and demand of commodities. These factors are external and could reduce the profitability, costing and prospective outlook for the business.

**Sovereign risk:** The Czech Republic is a fiscally stable jurisdiction but has a small and tightly regulated mining sector. The CMP as a waste reclamation project offers a development aligned to current regulation with in country permitting and approvals risks highlighted in our Investment in Czech Republic section here.

ioneer Ltd - INR

### **Financing risks**

Our analysis suggests that INR will require additional capital to fund the development costs for the Rhyolite Ridge lithium/boron project. As a pre-cash flow company, INR is reliant on equity/debt/external capital to fund capital commitments, and there is no guarantee that accessing these markets will be achieved without dilution to shareholders. Furthermore, accurate estimates of capital costs for the project remain subject to completion of final engineering, which may see capital requirements exceed our model assumptions.

### **Permitting and construction risks**

Permitting delays may result in risks of delivery of the Rhyolite Ridge project. Construction risks also exist and while an EPCM contract will be sought there may be risks of delay, cost over runs and scope changes. The possibility of Tiehm's buckwheat being declared endangered exists and would result in changes to the mine plan or delays to the project and could impact the economics.

### **Operational risks**

Once in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical (meeting design recoveries within a complex flowsheet), materials handling and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets and negatively impact valuation. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations, which can also materially impact forecast production from original expectations.

### **Exploration risks**

Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with exploration techniques and lack of accuracy in interpretation of geochemical, geophysical, drilling and other data. Our model assumptions include an amount of Indicated and Inferred Resources, which may or may not ultimately be proven to be economic and converted into Reserves.

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The company is exposed to commodity price and currency fluctuations, often driven by macro-economic forces including inflationary pressure, interest rates and supply and demand of commodities. These factors are external and could reduce the profitability, costing and prospective outlook for the business.

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Rating	Coverage Universe		IB Clients
	#	%	%
Buy	566	63.24%	57.95%
Hold	166	18.55%	41.57%
Sell	9	1.01%	33.33%
Speculative Buy	135	15.08%	80.00%
	895*	100.0%	

\*Total includes stocks that are Under Review

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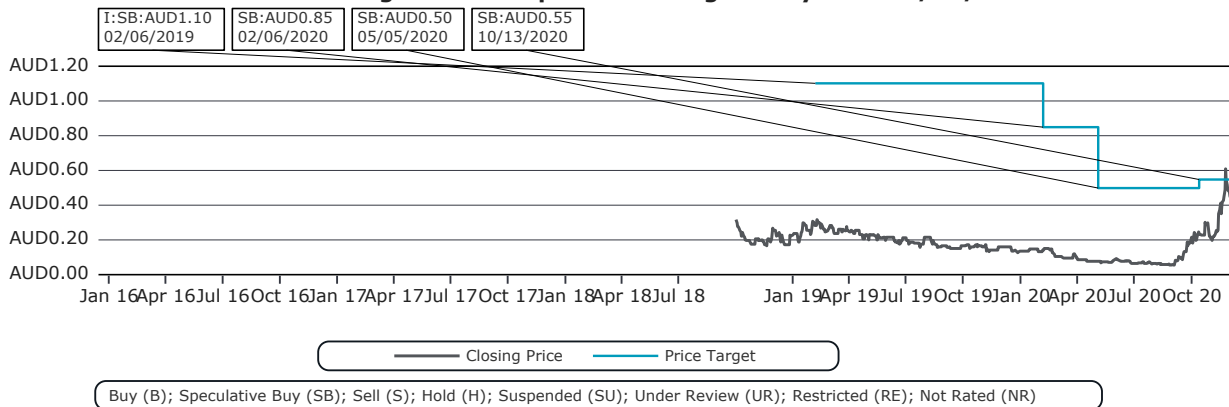
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