

# Investment Memo: European Metal Holdings (ASX:EMH)

*What we want to see from our investment in EMH during 2022*

**20th Jan 2022**

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*This investment memo is a short, high level summary of why we continue to hold EMH and what we expect the company to deliver in 2022. The purpose is to record our current thinking as a benchmark to assess the company's performance against our expectations 12 months from now. For our detailed commentary on our investment in EMH click [here](#).*

## What does EMH do?

**European Metals Holding (ASX: EMH)** is developing the largest hard rock lithium resource inside the European Union.

Located in the Czech Republic on the border with battery metal hungry Germany, EMH's project is well advanced and is moving towards becoming the first local EU battery grade lithium producer to deliver to an emerging local industry.

## What is the macro theme behind EMH?

The EU is rapidly switching from fossil fuel powered transportation to Electric Vehicles (EVs), as part of the "European Green Deal" which should make Europe carbon neutral by 2050.

This transition towards green-energy has become a key driver of the need for a local source of lithium, especially as the EU currently has no local supply and requires imports from China and South America. As a result we expect domestic suppliers of the raw-materials that are critical for battery production to thrive.

## Why do we continue to hold EMH in 2022?

1. **Strategically important location** - EMH's Lithium project is ideally located in the heart of Europe in Czech Republic – very close proximity to Major Automakers who are all switching to Electric vehicle production.
2. **Advanced development ready project** - EMH's project is arguably the most advanced near term lithium producer in the EU. The project is currently having a PFS (Pre-Feasibility-Study) updated & has already commenced works on a DFS (Definitive Feasibility Study).
3. **EMH is yet to sign an offtake partner** - With the lithium market currently a sellers market, projects that have lithium in the ground and close to being development ready are attractive offtake options for buyers looking to secure lithium supply. EMH is yet to sign an offtake partnership which we think is a key catalyst for this year.

## What do we expect EMH to deliver in 2022?

### Objective #1: DFS (Definitive Feasibility study)

We are hoping the FEED (Front-End Engineering Design) is completed and it forms the basis for a completed DFS which we hope to see before the end of 2022.

### Objective #2: Progress on development financing

We also want to see EMH make meaningful progress on a funding plan for the construction of the project. This funding could be delivered in various forms - debt, grants, or even direct investment by new partners. By the end of 2022, we expect the financing strategy to be a lot clearer.

### Objective #3: Offtake agreement

After the DFS is completed and a final-investment decision has been made we expect to see some progress made with respect to the signing of offtake agreements.

## What could go wrong?

**Regulatory risk:** EMH's lithium project is a fairly advanced stage project which means it is in the final stages of permitting before it is ready for a final investment decision. There is a risk that the project gets held up in the permitting process and the regulators reject the company's mining license applications.

**Financing risk:** EMH's asset is fairly advanced & is approaching a stage where a final investment decision needs to be made, deteriorating market conditions may deter financiers from making a large capital investment which will mean the project is unable to be put into production.

**Commodity risk:** EMH is a mining company, generally these businesses are price-takers for their product & lithium is no different. In the event that supply outstrips demand EMH's project may be considered uneconomic (Stranded).

## What is our investment plan?

Our plan is to hold a position in EMH over a 5 to 7 year period, through the construction of the project.

We have held for almost one year and have taken a small amount of profit having sold down 13% of our total holding (as per our standard investment strategy). We may look to sell a further 7% during 2022, hopefully into a share price rerate on the back of the company delivering on the three key objectives for 2022 listed in this memo.

**Disclosure:** *The authors of this memo and owners of Wise-Owl, S3 Consortium Pty Ltd, and associated entities, own 261,000 EMH shares at the time of publication. S3 Consortium Pty Ltd has been engaged by EMH to share our commentary on the progress of our investment in EMH over time.*

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