China pays full value for Neo Lithium. Here comes the bull market.

written by Tracy Weslosky | October 11, 2021
Friday post-market we had significant news in the critical materials market. Zijin Mining Group Co., Ltd. and Neo Lithium Corp. (TSXV: NLC | OTCQX: NTTHF) (FSE: NE2) announced that they have entered into a definitive agreement pursuant to which Zijin has agreed to acquire all of the outstanding shares of Neo Lithium at a price of per share of C$6.50 in cash.

The offer price represents a premium of approximately 36% over Neo Lithium's 20-day volume-weighted average price. The total cash consideration for all of the outstanding equity of Neo Lithium is approximately C$960 million.

That is a phenomenal deal for shareholders as just one year ago, the company was trading at a mere C$0.60 per share and this offer is double the share price in June 2021. In May 2019, the company released a 374-page Pre-Feasibility Study for the company's flagship Tres Quebradas (3Q) lithium brine project in Catamarca, Argentina, valuing the project at $1.14 billion with a post-tax 49.9% IRR. Full value recognized and received.

The Neo Lithium project, which is located in the so-called "Lithium Triangle", is where an estimated 40% of global lithium production originates in an area that holds more than 90% of the world's lithium brine resources. Neo Lithium owns 100% of the project.

In a recent column on InvestorIntel, Neo Lithium was identified as one of the top five lithium development and exploration

companies for 2021. The 3Q project is outstanding globally as it has the highest grade lithium deposit in Argentina (3rd-4th highest in the world) with the lowest critical impurity content in the world. The company established pilot plant production in September 2019 and saw battery-grade lithium carbonate (99.6% pure) in March 2020 and produced 99.9% pure lithium carbonate in June 2021, which contributed to the share price increasing from the $2.50-3.00 range to current levels.

Recall that in September 2020, the company welcomed a leading Chinese battery manufacturer and technology company, Contemporary Amperex Technology (CATL) as an 8% shareholder and strategic partner. This allowed Neo Lithium to strengthen the company balance sheet and provided industry expertise as the project was moving towards a Definitive Feasibility Study and planning for full-project construction and financing.

Is this the right time to sell for Neo Lithium? In the news release announcing the transaction, Neo Lithium's President and CEO revealed that the company had conducted a thorough strategic process and selected Zijin Mining for (among other things) their track record of developing assets in a responsible manner respecting the interests of local employees, communities and authorities. With an estimated $247.7 million of start-up capital required, this is the next logical step.

The transaction is subject to the receipt of certain government, regulatory, court and stock exchange approvals, including approval by relevant authorities in China and Investment Canada Act approval, and other closing conditions customary in transactions of this nature. Notwithstanding recent Sino-Canada tensions, this transaction should be swiftly approved.