

18 April 2023

Company update

Buy (maintained)

Price (17/04/23)

€33.74

Target price (12-mth)

€54.00 (previously €52.00)

Forecast total return

61.0%

Industrial Goods & Services

Netherlands

Bloomberg: AMG NA

Reuters: AMG.AS

Share data

Avg daily volume (3-mth)	276,588
Free float (%)	100.0
Market cap (€m)	1,097.4
Net debt (1F, US\$m)	368
Enterprise value (1F, US\$m)	1,724
Dividend yield (1F, %)	0.96

Source: Company data, ING estimates

Share price performance


Source: SIX

AMG

A Critical Materials Act

We reiterate our BUY on AMG, an ING Benelux Favourite, with our target price of €54 offering upside of +60%. AMG is fast becoming a hard-to-ignore, EU-listed play on electrification and EU battery materials supply chain reshoring, trading at an attractive valuation of 3.5x 2024F EV/EBITDA. We see upcoming catalysts in the form of solid 1Q23 results and a step-up of AMG's medium-term EBITDA target at the upcoming AGM in early May.

Lithium strategy to crystallize in higher medium-term targets: At its Capital Markets Day in Germany, AMG has presented a credible strategy to become a fully integrated supplier of battery-grade lithium chemicals, connecting its low-cost upstream operations in Brazil to an emerging downstream lithium footprint in Germany. Our analysis suggests AMG's lithium strategy ensures solid group profitability, even in adverse pricing scenarios, which should crystallize in an upward revision of AMG's medium-term EBITDA target of US\$500m at the upcoming AGM in early May.

A hard-to-ignore EU electrification play: We view AMG as one of a few EU-listed assets with profitable, existing, lithium operations and an early lead as an EU-based lithium refiner by end-2023F. Our analysis suggests the rapidly developing EU battery supply chain faces critical materials processing shortages over the next few years as (1) the EU calls for 40% of domestic processing capacity and (2) 50% of announced lithium mining and refining projects are early stage or under preliminary feasibility study at best. With construction of its first lithium hydroxide refinery in Germany on time and on budget, AMG is on track for 20,000 metric tonne (MT) of nameplate capacity by end-2023F, effectively making it the first EU-based processor of battery-grade lithium chemicals, with ambitions for 100.00 MT of nameplate capacity by 2030F.

Investment case: AMG has underperformed the broader market YTD as lithium prices have come off record highs, mainly driven, in our view, by short-term market imbalances in the largest EV market, China. We modestly lower our 2023F-2024F EBITDA estimates to US\$400m/US\$460m, reflecting recent lithium price declines, but flag AMG should continue to benefit from advantageous pricing in 1H23 and higher volumes in 2H23 as it expands its lithium output in Brazil by 45%. We suggest investors look beyond the current lithium price turmoil and focus on (1) AMG's attractive valuation at 3.5x 2024F EV/EBITDA, (2) its strategic value as early-entrant in the EU battery supply chain, and (3) its attractive lithium model, linking its low-cost upstream operations in Brazil to a downstream footprint in the heart of the EU automotive supply chain.

Forecasts and ratios

Year end Dec (US\$m)	2021	2022	2023F	2024F	2025F
Revenues	1,205	1,643	1,633	2,092	2,324
Normalised EBITDA	137	343	401	460	488
Normalised net profit	50	178	199	242	264
Normalised EPS (US\$)	1.63	5.47	6.13	7.46	8.12
Normalised PER (x)	22.6	6.7	6.0	4.9	4.5
EV/normalised EBITDA (x)	12.4	4.9	4.3	3.5	2.9
Equity FCF yield (%)	n/a	n/a	n/a	11.8	17.6
Dividend yield (%)	0.96	0.96	0.96	0.96	0.96
Price/book (x)	4.2	2.4	1.7	1.3	1.0
Normalised ROE (%)	25.9	46.8	33.9	30.0	25.0

Source: Company data, ING estimates

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Key investment points

Becoming a hard-to-ignore EU electrification play

At its CMD in Hoechst, Germany, AMG presented a credible strategy to become a leading, EU-based, provider of battery-grade lithium chemicals to the automotive and energy storage industry.

- **First EU-based producer of battery-grade lithium by 2024F**

With construction of its first lithium hydroxide refinery in Germany on time and on budget, AMG is on track for 20,000 metric tonne (MT) of nameplate capacity by end-2023F, effectively making it the first EU-based processor of battery-grade lithium chemicals. We have identified only one other project nearing construction phase, with commercial launch only expected for 2026F.

- **45% expansion low-cost lithium-tantalum mine by end-2023F**

By 2H23F, AMG will complete a 45% expansion of its low-cost lithium-tantalum mine in Mibra, Brazil. This will increase its output from 90,000MT pa to 130,000MT pa of lithium concentrate (spodumene). The expansion will also lead to better metallurgical recovery, solidifying AMG's favourable position on the cost curve. Exploration actions are ongoing to increase the resource potential and increase mine life, which currently is estimated at 18 years.

- **Integrating up- and downstream by 2026F**

The construction of a technical grade lithium chemicals facility near AMG's low-cost lithium-tantalum mine by 2026F is a major next step towards full backward integration. This facility will close the loop between its low-cost upstream resource and an audience of battery-grade lithium consumers in the automotive and energy space in the EU. This will also enable to fully reap the margin potential of AMG's spodumene operations, with a spodumene concentrate processing cost below US\$500/MT, as well as realize substantial CO₂ savings.

- **Ambition for 100,000MT of battery-grade lithium capacity in EU by 2030F**

Additionally, AMG's 100,000MT capacity target for 2030F, via a modular approach, would position the company amidst the top tier EU-based lithium providers and further align its portfolio to the EU Critical Materials act, which requires that 10%/40% of annual consumption of critical materials is mined/processed domestically by 2030F.

Our analysis indicates there will be a significant shortage of EU processing capacity to meet these requirements, based on announced gigafactories to date as well as currently announced lithium mining and processing projects.

- **Feed and technology agnostic, covered by offtakes**

We believe risks to AMG's EU-centric lithium strategy are lower than other EU-based integrated projects as AMG's operations aim to be feed and technology agnostic, while all current operations and expansions are covered by offtakes and MoU's. Secondly, AMG already has a profitable low-cost lithium mining operation in place and is currently qualifying pilot lithium chemicals samples with existing and prospective customers before moving to industrial scale in 1H24.

The EU Critical Raw Materials Act calls for 40% of critical materials to be processed in the EU by 2030F

Majority of portfolio aligned to EU Critical Materials act

Last month’s announced EU Critical Raw Materials Act has set important benchmarks along the materials value chain in order to diversify EU supplies and reduce dependence on third parties for critical raw materials.

In essence, upcoming EU regulation sets the following benchmarks for domestic mining, processing and recycling capacities:

- at least 10% of the EU’s annual consumption for extraction
- at least 40% of the EU’s annual consumption for processing
- at least 15% of the EU’s annual consumption for recycling, and
- no more than 65% of the EU’s annual consumption bring from a single third country

We view AMG as perfectly aligned with the Critical Materials Act, with exposure to more than 10 materials on the EU ranking. Combined, these materials reflect over 70% of the company’s sales.

Secondly, with an early lead as a EU-based processor of lithium and other critical materials, the company sits in the sweet spot of the EU directive and can be seen as a strategic asset in a rapidly developing battery materials supply chain.

Fig 1 2023 EU updated Critical strategic raw materials and AMG’s exposure

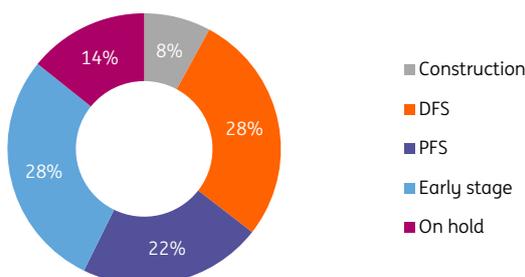
Raw Material	AMG exposure	Raw Material	AMG exposure	Raw Material	AMG exposure	Raw Material	AMG exposure
Aluminum/bauxite	Yes	Natural Graphite	Yes	Fluorspar	No	Tungsten	No
Coking Coal	No	Tantalum	Yes	Magnesium	Yes	Cobalt	No
Lithium	Yes	Bismuth	No	Silicon metal	Yes	Rare earths	No
Phosphorus	No	Hafnium	No	Baryte	No	Phosphate Rock	No
Antimony	Yes	Niobium	Yes	Gallium	No	Vanadium	Yes
Feldspar	Yes	Titanium metal	Yes	Manganese	No	Copper	No
Nickel	Yes	Boron/Borate	No	Strontium	No	Germanium	No
Scandium	No	Helium	No	Beryllium	No		
Arsenic	No	Platinum metals	No				

Source: EU Commission, ING

Early lead amidst EU shortage in refining capacity

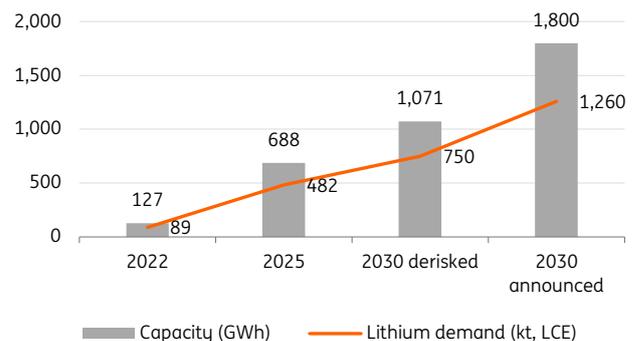
In light of the recently announced EU Critical Raw Materials Act, which has ambitions that at least 40% of EU’s annual consumption of critical materials is processed domestically, we see a significant shortage of battery-grade lithium processing capacity arising over the coming years.

Fig 2 Announced LCE processing projects by status (%)



Source: ING estimates

Fig 3 EU battery capacity and lithium demand



Source: BNEF, T&E, ING estimates

Half of the announced EU mining and refining projects are early stage or, at best, under PFS. Only two projects, AMG included, are under construction

We have identified over 20 EU-based mining and refining projects and conclude that the majority of projects is 'early stage' (ie, under scoping study or prior) or, at best, under preliminary feasibility study (PFS). Combined, these projects reflect 280ktpa or 50% of 557ktpa of total announced capacity by 2030F. These projects bear significant execution and financial risk, while often full permitting is not yet in place.

For projects totalling 154ktpa a definitive feasibility study has been done but construction has yet to start, for example because permitting has not yet been granted. Lastly, two large projects, Rio Tinto's Jadard project and Lusorecursos in Portugal, are currently on hold due to environmental issues. This underlines the type of risk large integrated projects encounter.

Only two projects, for a combined capacity of 44ktpa, are currently under construction. These are AMG's refinery in Bitterfeld, to start up by end-2023F, and RockTech's Guben convertor, which is scheduled to launch by 2025F.

Fig 4 EU lithium mining and processing projects

Name	Country	Capacity (kt LCE)	CAPEX (US\$m)	CAPEX/kt (US\$m/kt)	Target production	Status	Process
AMG Lithium	Germany	20	140	7.0	2023	Construction	Refining
RockTech Lithium - Guben	Germany	24	683	28.5	2025	Construction	Integrated, hard rock
TVL - Alkemy	UK	24	290	12.1	2025	DFS	Refining
Wolfsberg - European Lithium	Austria	9	866	98.4	2025	DFS	Integrated, hard rock
Keliber Oy	Finland	15	640	42.2	2026	DFS	Integrated, hard rock
Northvolt/Galp - Aurora	Portugal	32	700	22.2	2026	DFS	Integrated, hard rock
Green Lithium	UK	50	750	14.9	2026	DFS	Refining
Viridian Lithium	France	25	170	6.8	2026	PFS	DLE
Vulcan Energy Resources	Germany	24	1,496	62.3	2026	DFS	DLE
Zinnwald Lithium	Germany	12	336	27.7	2027	PFS	Integrated, hard rock
Imerys - Emili Project	France	30	1,000	33.3	2028	Early stage	DLE
Cinovec - CEZ & European Metals	Czech Rep.	29	644	22.1	n/a	PFS	Integrated, hard rock
Livista Energy	UK	30	n/a	n/a	n/a	PFS	Refining
Bondalti Chemicals & Neometals	Portugal	25	n/a	n/a	n/a	PFS	DLE
British Lithium	UK	21	n/a	n/a	n/a	Early stage	DLE
EuGeLi - Eramet	France	10	n/a	n/a	n/a	Early stage	DLE
Infinity Lithium	Spain	20	459	23.5	n/a	Early stage	Integrated, hard rock
Lithium de France	France	36	n/a	n/a	n/a	Early stage	DLE
Northern Lithium	UK	7	n/a	n/a	n/a	Early stage	DLE
Cornish Lithium	UK	10	244	23.7	n/a	Early stage	DLE
RockTech Lithium	Romania	24	400	16.5	n/a	Early stage	Integrated, hard rock
Rio Tinto - Jadard	Serbia	58	2,400	41.4	n/a	on hold	Integrated, hard rock
Lusorecursos Portugal Lithium	Portugal	21	400	18.9	n/a	on hold	Integrated, hard rock
Total		557	11,618	20.9			

Early stage defined as under scoping study or prior

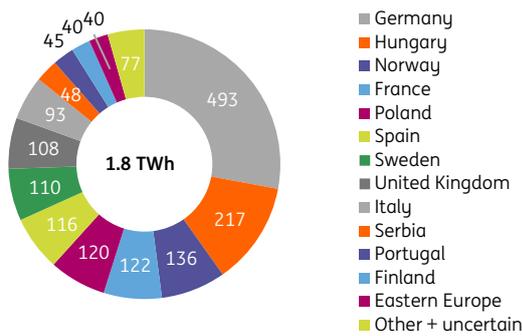
Source: Company filings, news resources, T&E

These numbers are in stark contrast to the potential European demand for locally sourced lithium. According to research consultancy Transport & Environment, which has mapped over 50 gigafactory announcements with a capacity of over 2GWh, Europe will have close to 1,800GWh of battery cell production capacity by 2030F. Even after assuming that 30% of announced projects will not be completed, and taking into account 85% capacity utilization, this would correspond to lithium chemicals demand of over 750kt by 2030F.

AMG is perfectly aligned with the EU Critical Materials act, providing 10 critical materials that account for over 70% of its sales.

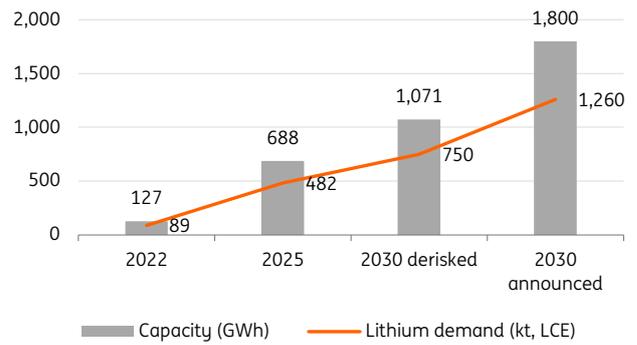
Given the EU benchmark for 40% of locally processed material, we thus see minimum demand of 300kt, but likely the number will be higher as battery-grade lithium chemicals are troublesome to ship and come at a CO₂ cost, further favouring EU-sourced lithium. With the currently announced projects, we see risks to supply arising over the coming years - as the EU supply chain develops along the blueprint set by the EU Critical Materials Act.

Fig 5 Battery capacity by country in 2030 (%)



Source: T&E, ING

Fig 6 EU battery capacity and lithium demand



Source: BNEF, T&E, ING

AMG has a history of setting mid-term targets since 2017 and achieving them in a shorter than expected time frame

New medium-term EBITDA targets upcoming

At its 4 May AGM we expect AMG to release a new mid-term EBITDA target. Management has hinted that the existing target of US\$500m or more, within 5 years or less, is within reach. As the new 5-year target considers 2028F earnings, we expect a step-up vs the current target - by then the Technical Grade lithium chemicals facility in Brazil will be online, together with potentially one or two more modules in Germany.

AMG has set mid-term targets since 2017, which it typically has reached in a shorter than expected time frame.

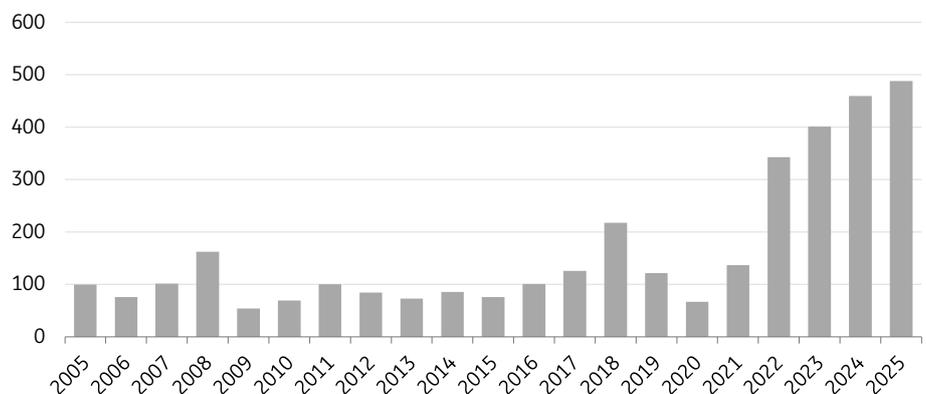
Fig 7 AMG's long-term guidance history

Date	Target	Achieved
AGM May 2017	+US\$200m within 5 years or less	US\$217m in 2018
AGM May 2019	+US\$350m within 5 years or less	US\$343m in 2022, +US\$400m in 2023F
AGM May 2022	+US\$500m within 5 years or less	Likely in 2024F-2025F

Source: ING

Per our analysis, we believe AMG could put forward an EBITDA target of US\$600m or more, within five years or less, which we would view as a strong signal of confidence in its operations as it also takes into account a normalisation of lithium prices from elevated 2022 levels.

Fig 8 AMG historical EBITDA (US\$m)



Source: ING

Addressing recent volatility in lithium prices

Following close to two years of rallying lithium prices, the lithium market has entered a phase of correction, with in particular Chinese lithium carbonate prices falling from record highs to a range of US\$30,000-40,000/MT spot. While a reversal from the record

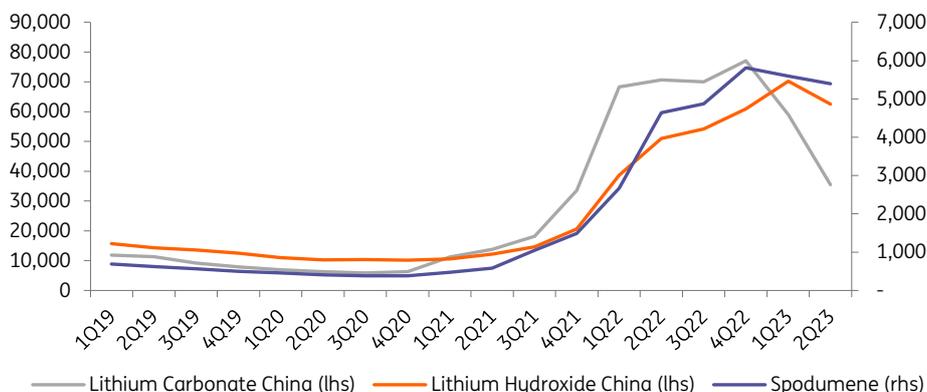
levels seen last year was not unexpected and always part of our base case, the speed at which prices have corrected has caught many by surprise.

Fig 9 Clean Energy Materials: key metals prices

	Unit	2019	2020	2021	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
Spodumene	US\$/mt	595	406	897.7	472	579	1,048	1,492	2,668	4,643	4,873	5,810	5,600	5,395
Lithium carbonate	US\$/mt	10,059	6,358	19,168.7	11,183	13,775	18,158	33,558	68,317	70,633	70,033	77,142	58,969	35,525
Lithium hydroxide	US\$/mt	14,035	10,433	14,500.0	10,542	12,208	14,667	20,583	38,667	51,000	54,167	61,000	70,250	62,500

Source: ING, Bloomberg

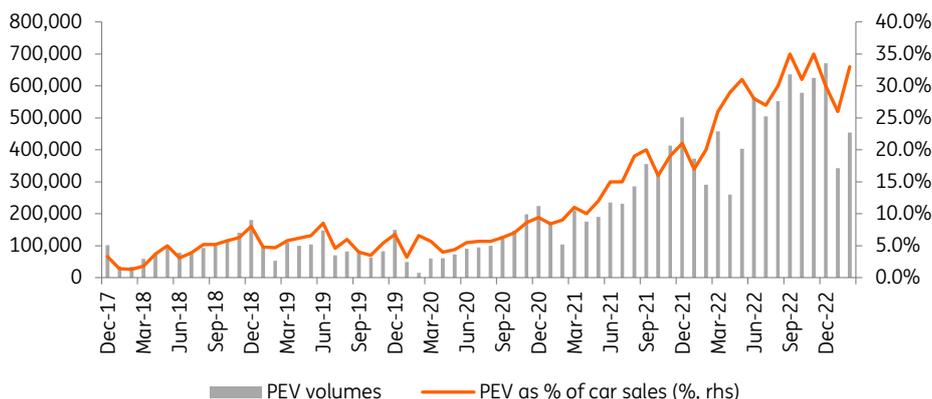
Fig 10 Lithium prices US\$/MT



Source: ING

We believe the recent weakness is driven by a slowdown in EV sales in China early in the year, against the backdrop of new lithium supply expected to hit the market over the course of 2023F.

Fig 11 PEV sales in China



PEV: plug-in electric vehicles, c.2/3 are full electric BEV, 1/3 plug-in hybrid or PHEV

Source: ING

A number of reasons have been put forward to explain the lower EV sales momentum in China, such as renewed Covid-infections, inventory destocking and changes in subsidy regimes for both EV and ICE vehicles. We also highlight a seasonal aspect as the first months of the year are always slow in terms of automotive sales due to Chinese New Year.

We also note the following:

- **Spodumene concentrate** prices have held up well versus lithium carbonate prices. This would indicate a sustained high-cost curve for hard-rock producers, where spodumene concentrate is used as feedstock for lithium carbonate. If this situation

persists, whereby spodumene trades considerably higher versus carbonate, then we expect prices to find a floor soon. Additionally, Chinese high cost lepidolite producers, are expected to exit the market when the price drops below c.US\$30,000/MT.

- **Lithium hydroxide** prices have held firm to date, which would indicate that the lithium carbonate weakness is driven by imbalances in the market. Carbonate is geared towards LFP segments, with hydroxide geared to NMC.
- **Management upbeat:** At its CMD, AMG's management seemed confident that lithium prices would stabilize and potentially recover in 2H23 as EV inventories get depleted and EV demand picks up.
- **3-4m price lag:** We flag that AMG's spodumene offtake contracts are indexed to Chinese lithium carbonate and hydroxide prices and structured such that there is a 3-4-month delay in terms of price pass-through. As a result, AMG's 1Q23 earnings should still benefit from higher prices QoQ vs 4Q22 and pricing in 2Q23 is expected to be solid as well, given where the market price was in 1Q23.

ING estimates

We keep our estimates for 2023F EBITDA mostly unchanged but lower our 2024F EBITDA forecast by 9%, while increasing our 2025F forecast by 7%. This is predominantly driven by lower spodumene price assumptions for 2024F, taking into account the recent lithium price declines, offset by higher than previously assumed profitability from AMG's lithium hydroxide conversion operations in Germany as of 2024F.

Our forecasts take into account average selling prices for spodumene of US\$3,175, US\$2,500 and US\$2,500 per metric tonne for 2023F, 2024F, and 2025F, vs current spot market prices in a range of US\$4,000-5,000 per metric tonne.

Fig 12 ING estimates revision (US\$m)

	2022 Actual	Old	2023F New	Variance (%)	Old	2024F New	Variance (%)	Old	2025F New	Variance (%)
Revenue	1,643	1,654	1,633	-1	2,106	2,092	-1	2,258	2,324	3
REBITDA	343	413	401	-3	505	460	-9	456	488	7
REBIT	297	360	335	-7	443	392	-11	394	421	7
Normalised EPS (US\$)	5.5	6.9	6.1	-12	8.9	7.5	-16	7.7	8.1	5
Net debt	331	407	368	-9	263	237	-10	77	37	-52
Sales										
CE Materials	668	825	760	-8	1,276	1,207	-5	1,406	1,402	0
CM Technologies	610	618	618	0	624	624	0	652	652	0
Critical Minerals	365	210	254	21	205	261	27	201	270	35
REBITDA										
CE Materials	259	340	315	-7	429	370	-14	375	392	5
CM Technologies	45	55	60	10	58	64	10	63	69	9
Critical Minerals	38	18	26	44	18	26	44	17	27	53

Source: ING

We are 2-4% ahead of Bloomberg consensus for 2023F and 2024F and 18% for 2025F.

Fig 13 ING vs Bloomberg consensus (US\$m)

	2022 Actual	INGF	2023F Cons.	Variance (%)	INGF	2024F Cons.	Variance (%)	INGF	2025F Cons.	Variance (%)
Sales	1,643	1,633	1,753	-7	2,092	2,200	-5	2,324	2,260	3
EBITDA	343	401	386	4	460	452	2	488	413	18
Normalised EPS (US\$)	5.5	6.1	6.0	1	7.5	7.1	6	8.1	6.6	22
Net debt	331	368	257	44	237	188	26	37	60	-38

Source: ING, Bloomberg

AMG's lithium roadmap

AMG's lithium strategy is built on a modular approach, which provides a credible roadmap towards its goal of 100,000MT pa of EU-based, battery-grade lithium hydroxide processing capacity by 2030F.

Another key feat, in our view, is that the strategy aims to fully exploit the low-cost nature of its upstream lithium-tantalum mining operations in Mibra, Brazil, linking it to its downstream operations in Germany. By 2026F, AMG will be a fully integrated lithium chemicals producer, catering to an audience of battery-grade lithium consumers in the heart of the automotive industry in Europe.

Upstream: Mine expansion in 2H23 and TG grade facility by 2026F

In 2H23 AMG is completing a 45% output expansion of its Mibra lithium-tantalum mine from 90,000MT pa to 130,000MT pa. The expansion bears limited technological risk and will result in 4-6 weeks downtime of the mining operations around the second or third quarter of 2023. Next to increased output, the expansion should also result in improved metallurgical recovery, guaranteeing AMG's low cost of production. This currently sits at US\$480/MT, delivered to China.

With the expansion of the mining operations, also comes an increase in tantalum concentrate production to 370,000lb per year. 100% of AMG's tantalum production is sold via a life-of-mine' offtake with JX Nippon Mining & Metals, ensuring constant generation of by-product credits and lowering the lithium production cost.

AMG's spodumene production is also sold via multi-year offtakes to its Chinese customers until 2026F, when AMG will need its spodumene to source its downstream lithium operations in Germany.

Potential life of mine extension

At the increased output, the mine has a remaining mine life of 18 years. During the CMD, AMG has announced further exploration actions near the Mibra mine to extend its resource potential, while it disclosed a portfolio of 17 mineral rights in Brazil with presence of lithium. We view this as important in light of the large CAPEX spend of US\$250m for a technical grade lithium carbonate facility by 2026F (see below).

Technical grade facility in Brazil by 2026F

AMG has been contemplating a technical grade lithium chemicals facility in Brazil since the start of its lithium endeavors and this precursor plant is now formally part of the company's lithium roadmap. The plant would effectively close the loop between AMG's upstream operations in Brazil and its downstream processing activities in Germany. Full vertical integration will also enable AMG to fully reap the conversion margin, while generating sizeable logistics and CO₂ savings as its spodumene is currently shipped to China.

AMG has detailed that the plant would cost US\$250m and be operational by 2026F. At the expected spodumene output of 130,000MT pa by 2H23, the technical grade lithium production capacity would be 16,500 MT pa.

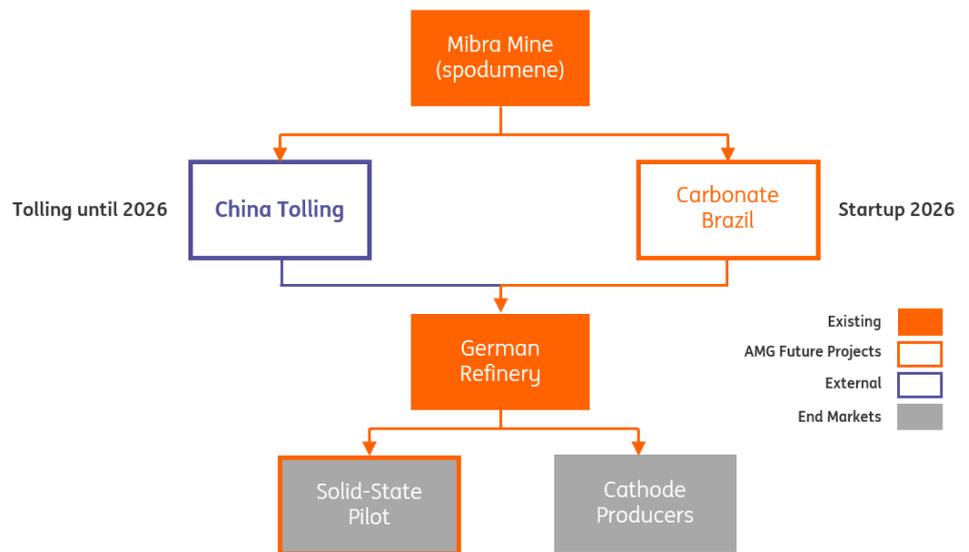
Delivered cost to Germany was guided below US\$10,000/MT, assuming spodumene at cost. Given AMG's spodumene production cost of <US\$500/MT and conversion factor of c.8x, we are assuming a number well below US\$10,000/MT.

Downstream: First 20ktpa German module launches by end-2023

Construction of AMG’s first lithium hydroxide upgrading plant is set to be completed by year-end. By then, AMG will be the first EU-based producer of lithium hydroxide, with a nameplate capacity of 20,000MT pa. Four more modules are being ambitioned, which could bring AMG total capacity to 100,000MT by 2030F.

AMG has been producing various pilot-scale samples which are already in qualification process with existing and prospective customers. This should smoothen the industrial-scale qualification process during the ramp-up of module 1 in 1H24. For its R&D, AMG draws on the know-how and expertise of its +20 FTE team with ample past experience at major global lithium producers such as Albemarle.

Fig 14 Module 1 flow chart



Source: Company presentation

The production of Module 1 is now fully covered by offtakes and MoUs. AMG has a binding supply agreement in place with Korean EcoPro BM for an initial three year term to supply 5,000MT/year, plus an optional 5,000/MT year to EcoPro BM’s cathode facility in Debrecen, Hungary. Next to that, AMG has MoUs in place with Freyr, General Lithium and other, undisclosed customers for the remaining output of Module 1.

Step-by-step approach to future modules

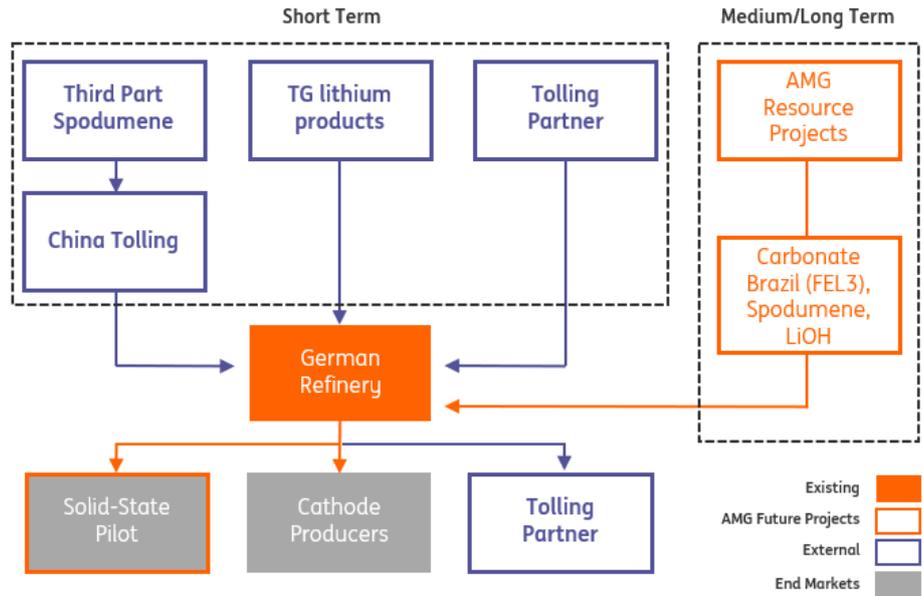
AMG sees potential for four more lithium hydroxide modules in Germany by 2030F, totaling capacity of 100,000MT pa. We expect a cautious approach, whereby AMG uses learnings from prior modules and assesses the market situation, before moving to a next module. Management at the CMD sounded upbeat on commercial demand for its products and does not expect issues in securing offtakes, as Module 1 output is already fully sold out.

Full flexibility: feed and technology agnostic

As presented below, the flow chart for modules 2 to 5 will be different from module 1 as AMG only has sourcing potential for one module from its Mibra mine. It is important to note that future modules aim to be feed-agnostic and will be able to process a variety of input feedstock, either market-bought, via sourcing deals with partners or from other streams such as recycling.

AMG could relatively easily switch to a different output such as lithium carbonate, should demand patterns in the European automotive space shift, for example from high-nickel NMC to LFP. This makes AMG a relatively technology-agnostic play on the automotive transition.

Fig 15 Module 2-5 flow chart



Source: Company presentation

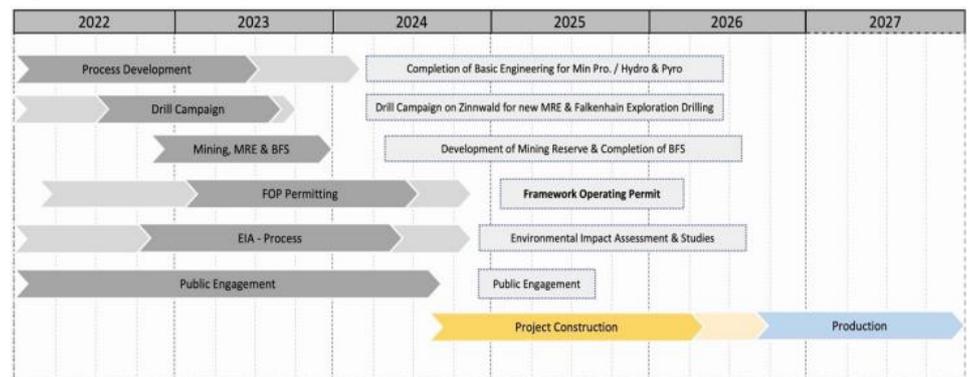
EU sourcing potential with Zinnwald Lithium stake

Ahead of its CMD, AMG unveiled a 25% cornerstone participation in AIM-listed Zinnwald Lithium, an early-stage lithium mining project in Germany for c.US\$14m.

The Zinnwald Lithium project is located in southeast Germany, 35km from Dresden and adjacent to the border with the Czech Republic, where it is connected with the Cinovec mining project, operated by CEZ and European Metals. It consists of an underground mine in an existing mine site which has been operated as recently as the early 1990s. The project has a 30-year mining licence until 2047 and estimated mine life covers over 35 years of production. Next to Zinnwald, the company has three more licences for lithium projects in Germany (Falkenhain, Altenberg DL and Sadisdorf).

A Preliminary Economic Assessment (PEA) has identified potential to produce a minimum of 12,000 tonnes pa of lithium hydroxide as of 2026F which, combined with by-products, should generate US\$192m in EBITDA pa. This is based on a LiOH price of US\$22,000/MT and unit operating costs including by-products of US\$6,200/MT. The target is to build on site, mineral and chemical processing, with initial construction capital costs of US\$336m.

Fig 16 Zinnwald Project timeline



Source: Company presentation

While still early days, we believe this transaction is of strategic importance as it taps into a raw materials base close to the lithium processing site and creates potential for sourcing deals for AMG which could feed future models.

Modeling AMG's Lithium operations

In the below table, we summarize AMG's lithium ambitions in the various stages of development.

- **Stage 1:** AMG's up- and downstream operations will function in a semi-integrated process as its Brazil-produced spodumene is processed via its Chinese tolling partner to produce battery-grade lithium hydroxide in Germany.
- **Stage 2:** As AMG completes its technical grade lithium facility in Brazil, its up- and downstream operations will be fully integrated, enabling AMG to better capture the value of its low-cost mining operations.
- **Stage 3:** AMG further develops up to four more lithium hydroxide upgrader modules in Germany, which will process either market-bought technical grade lithium or sourced via offtakes/junior mining partners.

Fig 17 Summary of AMG Lithium operations

	Module 1		Module 2-5
Process	Semi-integrated (until 2027F-2028F)	Fully integrated (as of 2027F-2028F)	Potentially 4 upgrader facilities
Feedstock	50% Brazil via tolling / 50% market/offtake	75% Brazil via TG facility / 25% market/offtake	100% TG via market/offtake/sourcing
Capacity	20.000MT per annum	20.000MT per annum	20.000MT per annum per module
CAPEX	US\$140m (incl. in 2023F CAPEX)	US\$250m + US\$80m	US\$75m-100m per module
Modelling assumptions	<ul style="list-style-type: none"> • Brazil: Tolling fee, spodumene at market price • Market/offtake: Conversion cost TG to BG <US\$2,000/MT 	<ul style="list-style-type: none"> • Brazil: TG carbonate delivered to Germany <US\$10,000/MT • Conversion cost TG to BG: <US\$2,000/MT 	<ul style="list-style-type: none"> • Conversion cost TG to BG: <US\$2,000/MT • Price difference BG vs TG: c.US\$5,000/MT

Source: ING estimates

In the below table, we present group EBITDA sensitivities for the various stages of AMG Lithium's development along three scenarios. Price assumptions for lithium hydroxide and spodumene are based on historical market price correlations.

- **Low-case:** Lithium hydroxide close to marginal cost of US\$16,500/MT and spodumene at US\$1,000/MT.
- **High-case:** Lithium hydroxide at US\$35,000/MT vs current spot at US\$62,000/MT and spodumene at US\$2,500/MT.
- **Mid-case:** Lithium hydroxide at US\$25,000/MT and spodumene at US\$1,800/MT.

Fig 18 AMG Group EBITDA sensitivity (US\$m)

Stage	Low-case: US\$1,000/MT spodumene US\$16,500 MT lithium hydroxide	Mid-case: US\$1,800/MT spodumene US\$25,000/MT lithium hydroxide	High-case: US\$2,500/MT spodumene US\$35,000/MT lithium hydroxide
Semi-integrated	287	408	534
Fully integrated	310	480	680
Fully integrated, 1 module	370	540	740
Fully integrated, 2 modules	430	600	800

Source: ING estimates

Our analysis indicates a solid group profitability at the low-end of the price range in all stages of development, and attractive gearing to prices as AMG develops into a fully integrated lithium miner and refiner.

Valuation and risks

Valuation

We increase our target price to €54 per share from €52 per share, as we roll forward our valuation model to 2024F. We continue to value AMG through a DCF for Clean Energy Materials (WACC 11%, no terminal growth) and peer multiples of 7.5x and 5.0x for Clean Materials Technologies and Critical Minerals divisions.

At our target price, AMG would trade at 6.0x, 5.0x, 4.3x 2023F, 2024F, and 2025F EV/EBITDA vs 4.3x, 3.5x and 2.9x currently. AMG trades well below its peers across all peer groups and at a discount of c.50% to its historical 1-year forward multiple of 7.0x.

Fig 19 Peer multiples comparison

	Curr	Price*	Mkt cap	PER (x)			EV/EBITDA (x)			EV/EBIT (x)		
				2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Materials Technologies												
Bodycote	GBP	6.69	1,280	15.0	13.4	12.4	6.9	6.4	6.3	12.1	10.8	10.0
Arconic	USD	26.02	2,587	14.0	10.6	7.8	6.0	5.4	5.1	9.2	8.0	7.5
Materion	USD	114.35	2,349	20.5	18.2	n/a	13.2	12.0	n/a	18.3	16.3	n/a
ATI	USD	38.56	4,957	17.7	14.8	12.4	11.2	9.7	8.1	13.7	11.7	9.7
Carpenter Technology	USD	46.09	2,236	20.3	14.5	n/a	9.3	8.5	n/a	15.6	13.2	n/a
PVA TePla	EUR	20.44	445	20.5	16.0	13.1	11.5	9.0	7.7	13.6	10.2	8.5
Average				18.0	14.6	11.4	9.7	8.5	6.8	13.7	11.7	8.9
Median				19.0	14.6	12.4	10.3	8.8	7.0	13.6	11.3	9.1
Lithium												
Allkem	AUD	12.05	7,681	7.5	7.5	3.5	4.1	2.7	2.0	4.9	3.1	2.6
Pilbara Minerals	AUD	3.95	11,827	6.7	9.6	7.9	3.7	4.1	4.1	3.9	4.3	4.4
Livent	USD	22.64	4,065	11.9	9.1	7.8	7.7	5.9	4.8	8.6	6.5	4.8
SQM	USD	82.34	21,434	6.4	7.3	8.4	3.8	4.2	4.6	4.0	4.8	5.0
Albemarle	USD	205.90	24,152	7.6	7.9	7.5	6.2	6.3	5.7	7.7	8.0	7.7
Ganfeng Lithium	CNY	70.02	131,757	8.7	9.1	8.0	7.6	7.8	6.7	7.8	8.0	7.0
Sigma Lithium	USD	38.78	4,158	10.2	8.3	7.5	10.8	7.8	5.2	13.3	13.6	17.4
Lithium Americas	USD	20.55	3,104	35.3	11.9	16.4	23.9	8.1	8.0	31.6	13.7	4.6
Liontown Resources	AUD	2.76	6,068	n/a	64.9	22.7	n/a	32.1	12.5	757.9	n/a	14.4
Piedmont Lithium	USD	58.71	1,126	10.4	2.6	1.8	9.8	2.3	1.5	10.1	2.6	2.0
Core Lithium	AUD	0.99	1,832	9.9	32.9	8.9	11.2	4.7	5.4	6.5	19.0	5.9
Average				11.5	15.6	9.1	8.9	7.8	5.5	77.8	8.4	6.9
Median				9.3	9.1	7.9	7.7	5.9	5.2	7.8	7.2	5.0
Vanadium												
Largo	CAD	6.86	439	n/a	6.3	4.1	11.4	3.4	2.4	19.3	4.7	3.0
Bushveld Minerals	GBP	0.04	54	n/a	10.5	n/a	5.8	6.1	n/a	9.8	9.1	n/a
Glencore	GBP	4.89	61,417	7.2	8.0	9.3	4.4	4.8	5.2	6.3	7.8	9.1
Average				7.2	8.3	6.7	7.2	4.8	3.8	11.8	7.2	6.0
Median				7.2	8.0	6.7	5.8	4.8	3.8	9.8	7.8	6.0
Critical Materials												
Minerals Technologies	USD	60.21	1,959	11.9	10.1	n/a	8.0	7.4	n/a	10.9	9.8	n/a
Cabot	USD	74.89	4,218	11.3	10.4	n/a	6.9	6.6	n/a	8.4	7.6	n/a
Eramet	EUR	100.50	2,890	6.0	4.4	3.0	3.6	2.9	2.4	5.2	3.8	2.8
AMAG Austria Metall	EUR	36.60	1,291	23.9	18.0	19.4	9.7	8.5	8.7	19.6	15.4	16.3
Average				13.3	10.7	11.2	7.1	6.3	5.6	11.0	9.1	9.5
Median				11.6	10.3	11.2	7.5	7.0	5.6	9.7	8.7	9.5
Average group				13.5	13.6	9.6	8.6	7.4	5.6	42.4	9.2	7.5
Median group				11.3	10.3	8.0	7.7	6.4	5.2	10.0	8.0	7.0
BEUMETL Index				9.3	9.6	9.8	5.8	5.5	5.5	7.3	7.0	6.9
AMG	EUR	33.74	1,097	6.0	4.9	4.5	4.3	3.5	2.9	5.1	4.1	3.3

*Pricing at close April 17, 2023
 none of the peers are rated by ING
 Source: ING, Bloomberg

Fig 20 SOTP valuation (US\$m)

	EBITDA (US\$m)	EBITDA multiple(x)	EV (US\$m)
Clean Energy Materials (DCF-based)	370	4.7	1,721
Critical Materials Technologies	64	7.5	477
Critical Minerals	26	5.0	130
Group	460	5.1	2,328
- net debt			(237)
- Minorities			(27)
- Employee benefits			(117)
- Provisions			(12)
Equity value			1,934
Number of shares (m)			32.5
Equity value/share (US\$)			60
Currency €/US\$			1.09
Equity value/share (€)			54

Source: ING

Risks

The main downside risk to our investment case considers sharp movements of metal prices that are relevant to AMG's businesses. We identify ferrovanadium and lithium as key metals determining AMG's profitability.

There is also an execution risk related to key expansions in Vanadium and Lithium.

Further key risks include weaknesses in the aerospace, automotive and construction end markets. As AMG operates global activities, there is also a foreign exchange rate risk that has to be considered.

We also see a customer concentration risk, especially for AMG Technologies, Vanadium and Silicon, whereby AMG supplies few large customers.

Financials

Year end Dec (US\$m)	2018	2019	2020	2021	2022	2023F	2024F	2025F
Income statement								
Revenues	1,310	1,189	937	1,205	1,643	1,633	2,092	2,324
Cost of goods sold	(995)	(1,070)	(824)	(996)	(1,233)	(1,156)	(1,544)	(1,745)
Gross profit	315	118	113	208	409	478	548	579
Operating costs	(98)	3	(46)	(72)	(67)	(77)	(89)	(91)
EBITDA	217	121	67	137	343	401	460	488
Depreciation & amortisation	(33)	(42)	(44)	(44)	(45)	(66)	(67)	(67)
Impairments	0	0	0	0	0	0	0	0
EBIT	184	79	23	93	297	335	392	421
Net interest	(23)	(28)	(21)	(34)	(31)	(59)	(59)	(59)
Associates	0	0	(0.9)	(1)	(1)	0	0	0
Other pre-tax items	(21)	(105)	(32)	(36)	10	0	0	0
Pre-tax profit	140	(54)	(31)	22	275	276	334	362
Tax	(45)	5	(11)	(9)	(84)	(69)	(83)	(91)
Minorities	0.2	(0.3)	(0.8)	0.0	3	8	8	8
Other post-tax items	(0.3)	0.6	2	0.0	(6)	(16)	(16)	(16)
Net profit	95	(48)	(42)	14	188	199	242	264
Normalised EBITDA	217	121	67	137	343	401	460	488
Normalised EBIT	184	79	23	93	297	335	392	421
Normalised net profit	115	57	(9)	50	178	199	242	264
Balance sheet								
Tangible fixed assets	328	430	552	694	798	932	1,024	1,082
Intangible fixed assets	35	42	43	45	41	41	41	41
Other non-current assets	76	97	96	91	108	108	108	108
Cash & equivalents	382	536	416	423	352	314	446	646
Other current assets	500	368	332	447	574	680	736	770
Total assets	1,321	1,472	1,439	1,700	1,873	2,075	2,355	2,648
Short-term debt	24	29	31	40	22	22	22	22
Other current liabilities	396	325	312	426	436	442	482	514
Long-term debt	357	669	673	675	661	661	661	661
Other long-term liabilities	199	264	282	264	236	236	236	236
Total liabilities	977	1,288	1,298	1,406	1,355	1,361	1,401	1,433
Total equity	344	184	141	294	518	714	954	1,215
Total liabilities & equity	1,321	1,472	1,439	1,700	1,873	2,075	2,355	2,648
Capital employed	725	883	845	1,010	1,201	1,397	1,637	1,898
Net working capital	224	166	110	111	200	300	315	318
Net debt (cash)	(0.5)	163	288	293	331	368	237	37
Cash flow								
Cash flow EBITDA	217	121	67	137	343	401	460	488
Change in working capital	(73)	76	11	23	(123)	(100)	(15)	(3)
Other non-cash items	(7)	(103)	(30)	(37)	13	0	0	0
Operating cash flow	137	94	48	123	233	301	444	485
Cash interest paid	(18)	(23)	(19)	(22)	(23)	(59)	(59)	(59)
Cash taxes paid	(21)	(25)	(9)	(10)	(42)	(69)	(83)	(91)
Net cash from operating activities	97	47	20	91	168	173	302	336
Capex	(73)	(79)	(124)	(162)	(175)	(200)	(160)	(125)
Net acquisitions	2	(25)	(0.9)	(0.4)	3	0	0	0
Other net investing cash flows	0.1	(305)	87	100	69	0	0	0
Cash from investing activities	(71)	(410)	(38)	(63)	(103)	(200)	(160)	(125)
Increase (decrease) in equity	6	(87)	(0.6)	122	(2)	0	0	0
Increase (decrease) in debt	198	321	5	9	(34)	0	0	0
Dividends & minority distribution	(12)	(17)	(10)	(8)	(20)	(11)	(11)	(11)
Other financing cash flow	(9)	(9)	(4)	(12)	6	0	0	0
Cash from financing activities	183	209	(9)	111	(49)	(11)	(11)	(11)
Forex & discontinued operations								
Net change in cash & equivalents	209	(155)	(27)	139	15	(38)	131	200
FCF	43	(10)	(85)	(50)	16	32	201	270

Normalised earnings (eg, EBITDA, EBIT, net income and other sector-specific line items) are in the opinion of the analyst the best representation of a company's underlying and sustainable earnings derived from its regular operating activities.

Source: Company data, ING estimates

Valuation, ratios and metrics

Year end Dec	2018	2019	2020	2021	2022	2023F	2024F	2025F
Performance & returns								
Revenue growth (%)	23.6	-9.3	-21.2	28.6	36.4	-0.58	28.1	11.1
Normalised EBITDA growth (%)	73.0	-44.1	-45.0	104.7	150.6	17.1	14.6	6.2
Normalised EBIT growth (%)	94.6	-56.9	-70.9	302.5	219.7	12.7	17.1	7.3
Normalised EPS growth (%)	54.2	-49.3	n/a	n/a	235.6	12.2	21.6	8.8
Gross margin (%)	24.1	10.0	12.0	17.3	24.9	29.2	26.2	24.9
Normalised EBITDA margin (%)	16.6	10.2	7.1	11.3	20.9	24.6	22.0	21.0
Normalised EBIT margin (%)	14.1	6.7	2.5	7.7	18.1	20.5	18.8	18.1
Reported net margin (%)	7.2	-4.1	-4.4	1.1	11.4	12.2	11.6	11.4
Reported ROE (%)	32.8	-20.1	-30.2	7.2	49.4	33.9	30.0	25.0
Normalised ROA (%)	16.2	5.7	1.6	5.9	16.6	17.0	17.7	16.8
ROAIC (%)	20.3	5.3	1.3	6.9	18.8	17.3	17.6	16.5
ROACE (%)	30.8	9.9	2.7	10.0	26.9	25.8	25.9	23.8
ROACE - WACC (%)	21.8	0.87	-6.3	1.0	17.9	16.8	16.9	14.8
Leverage & solvency								
Working capital as % of sales	17.1	14.0	11.7	9.2	12.2	18.4	15.1	13.7
Net debt (cash)/EBITDA (x)	0.00	1.3	4.3	2.1	0.97	0.92	0.52	0.08
Net debt (cash)/equity (%)	-0.13	88.4	203.8	99.6	63.9	51.6	24.9	3.1
EBITDA net interest coverage (x)	9.2	4.3	3.2	4.1	11.1	6.8	7.8	8.3
Current ratio (x)	2.1	2.5	2.2	1.9	2.0	2.1	2.3	2.6
Dividend cover (cash flow) (x)	3.0	n/a	n/a	n/a	0.65	n/a	14.3	20.7
Valuation								
EV/revenue (x)	1.1	1.3	1.8	1.4	1.0	1.1	0.76	0.60
EV/normalised EBITDA (x)	6.5	13.1	25.8	12.4	4.9	4.3	3.5	2.9
EV/normalised EBIT (x)	7.6	20.0	74.7	18.2	5.7	5.1	4.1	3.3
EV/capital employed (x)	1.9	1.8	2.0	1.7	1.4	1.2	0.97	0.73
EV/invested capital (x)	1.5	1.4	1.5	1.3	1.2	1.1	0.85	0.65
Normalised PER (x)	9.7	19.1	n/a	22.6	6.7	6.0	4.9	4.5
Price/book (x)	3.5	6.8	9.1	4.2	2.4	1.7	1.3	1.0
Dividend yield (%)	1.6	0.61	1.3	0.96	0.96	0.96	0.96	0.96
FCF yield (%)	3.0	n/a	n/a	n/a	0.97	1.9	12.6	19.4
Per share data								
Reported EPS (US\$)	3.11	(1.64)	(1.45)	0.45	5.77	6.13	7.46	8.12
Normalised EPS (US\$)	3.80	1.93	(0.32)	1.63	5.47	6.13	7.46	8.12
Dividend per share (US\$)	0.57	0.22	0.48	0.35	0.35	0.35	0.35	0.35
Equity FCFPS (US\$)	0.80	(1.11)	(3.63)	(2.35)	(0.21)	(0.82)	4.37	6.49
BV/share (US\$)	10.52	5.44	4.03	8.81	15.08	21.14	28.51	36.54

Source: Company data, ING estimates

Company profile

AMG produces highly engineered specialty metals and mineral products and provides vacuum furnace systems and services for the transportation, infrastructure, energy and specialty metals & chemicals industries. Its key operating segments are Clean Energy Materials (c.45% of 2021 EBITDA), Critical Materials Technologies (c.30% of EBITDA) and Critical Minerals (c.25% of EBITDA). As AMG expands capacity, the weight of Clean Energy Materials is set to increase. On a geographical basis, Europe and the US account for 39% of sales each, with 17% stemming from Asia and 5% ROW.

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Disclosures Appendix

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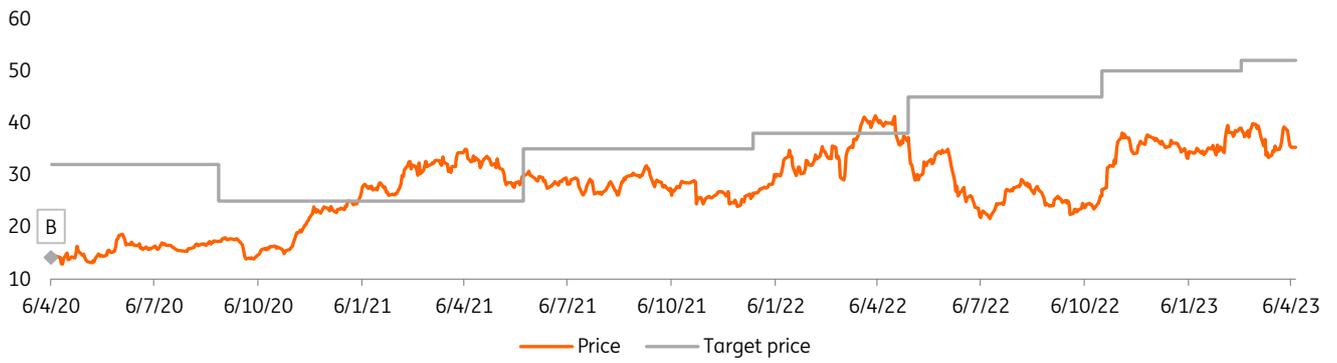
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Price & ratings history to 10/04/23: AMG (AMG.AS)



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