

Investment Memo for Euro Manganese (ASX:EMN)

5th January 2022

What does EMN do?

Euro Manganese (ASX:EMN) is developing a High Purity Manganese project in the European Union (Czech Republic) through the recycling of tailings resource from a historical mine site.

What is the macro theme behind EMN?

Manganese is a key input for EV batteries and European nations are adopting pro EV policies with the ultimate aim of phasing out fossil fuel powered vehicles.

The EU region currently accounts for ~45% of all EV sales. With the size of the global EV fleet expected to grow from 11 million now to ~145 million in 2030, we expect domestic demand for battery metals to increase exponentially.

Why do we continue to hold EMN in 2022?

1. **Unique exposure to High Purity Manganese:** Increasing demand is not being met with increasing supply because the demand outlook is less clear in the short-term. However we have made our investment ahead of time, anticipating exponentially higher demand in the future. EMN has five MOU's signed to supply customers with product as part of the supply-chain qualification process. These, if successful, could form the basis for long-term off-take agreements.
2. **Strategically located:** EMN is strategically located in the heart of Europe, where over 25 EV plants and 30 battery plants will soon be operating. High Purity Manganese is a key raw-material in their supply chain. With VW and Daimler committing to EUR\$34/EUR\$60B+ in investments over the next 5-10 years into their battery metals supply-chain EMN may benefit from the increased domestic demand.
3. **New CEO** - Appointed in December 2021 - we are looking forward to what Dr. Matthew James can accomplish for EMN in 2022. Dr. James is particularly skilled at getting major mining projects operational having helped Lynas raise over A\$1 billion of equity and debt funding between 2002 and 2011.

[Click here to see a deep-dive on why we first invested in EMN.](#)

What do we want to see from EMN in 2022?

Objective #1: **Construction of the Demonstration Plant**

- EMN has designed a Demonstration Plant to produce large-scale samples of High Purity Manganese products. The plant will enable the company to show potential off-take partners they have production capabilities & a commercially viable product. Commissioning of the plant expected in Q2 2022.

Objective #2: **Definitive Feasibility Study (DFS)**

- The DFS will give an updated look at EMN's project economics & assist with the financing process going into a final investment decision. Expected in the second half of 2022.

Objective #3: **First Offtake Partner**

- Large scale samples of High Purity Manganese need to be assessed for quality by end users who then sign an offtake agreement for future supply - an offtake agreement would be a major achievement for EMN in 2022.

Objective #4: **Early Progress on Project Financing**

- With a new CEO at EMN that is skilled in financing resource development projects, it would be a win to see some early progress on 2023 financing goals come from these offtake agreements.

NOTE: As EMN only just appointed a new CEO when this Investment Memo was published, we will review these objectives at a later date, once the new CEO reviews and potentially refines the company strategy.

What could go wrong?

- **Product risk** - EMN's Demonstration Plant is unable to produce qualified, commercially viable High-Purity Manganese products that are of interest to potential customers.
- **Development risk** - Tailings recycling projects inherently have a lower-grade ore versus conventional deposits, which can impact the project's economics, sometimes making it non-viable to operate a tailings mine. Additionally, development of the project also hinges on successful processing of manganese tailings and scaling that operation to produce economic quantities of the product.
- **Regulatory / permitting risks** - Every mine needs a social licence to operate and there are risks associated with any new mining development.

- **Market risk** - There's a risk that manganese prices decrease and a tailings resource is not seen as attractive to investors, or there is a general market collapse/financial crisis.
- **Financing risk** - Due to a combination of any or all of the above risks, financing for the project is hard to come by or unavailable, and the project does not become operational.

What is our investment plan?

We invested in EMN at 6.5¢, 20¢ and 60¢. We have held EMN shares for over 16 months now and have free carried and taken some profit. We continue to hold 1,733,000 shares of EMN.

We are very interested to see if the new CEO can increase the pace at which the 2022 objectives are achieved.

During 2022 if some of the key objectives are achieved and the share price re-rates we will aim to sell about 20% of our position to take some profit. Our long term aim is to hold a position into first production in 2025.

Disclosure: *The authors of this article and owners of Next Investors, S3 Consortium Pty Ltd, and associated entities, own 1,733,000 EMN shares at the time of publication. S3 Consortium Pty Ltd has been engaged by EMN to share our commentary on the progress of our investment in EMN over time.*

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