May 11, 2023

*Undefined

LGO

NGS

Rating

Outperform

Unchanged

Current Price

$5.13

Target Price

$11.00

Market Capitalization

328.35m

Shares Outstanding

64.01m

Float

64.00m

Institutional Holdings

79.2%

12-Month Low/High

$4.47/$10.19

Average 90-Day Volume

50330

Fiscal Year End

2023-12-31

Revenues ($ MIL)

Period	2022 A	2023 E	2024 E
Q1	$42.7 A	$57.4 A	
Q2	$84.8 A	$44.1 E	
Q3	$54.3 A	$48.3 E	
Q4	$47.5 A	$56.7 E	
	$229.3 A	$206.5 E	$260.5 E

EPS ($)

Period	2022 A	2023 E	2024 E
Q1	$(0.03) A	$(0.02) A	
Q2	$0.28 A	$(0.24) E	
Q3	$(0.04) A	$(0.22) E	
Q4	$(0.24) A	$(0.17) E	
	$(0.03) A	$(0.63) E	$(0.45)

Largo Inc.

Initial Thoughts on the First Quarter

Largo reported 2023-1Q results generally in line with our recently-revised estimates. Revenues were a few million higher than expected, but so were operating costs, leading to operating income near expectations. Income tax expenses of $1.8 million on $0.7 million of pretax income were unexpected causing a $1.2 million net loss ($0.02 p/s) versus our expectations for breakeven results. We will seek clarification on the 268% tax rate during the upcoming conference call (5/11 at 1:00 pm EST, 1-416-764-8650).

Production and sales numbers lowered for the rest of the year. Management lowered annual production guidance to 9,000-11,000 tonnes from 11,000-13,000 tonnes. It also lowered sales to 8,700-10,700 tonnes from 10,300-11,300 tonnes and raised the upper range of its operating costs per unit sold projections. The declines were split across the second, third, and fourth quarters implying that the heavy rainfall in December that affected inventory may continue longer than expected. We have adjusted the numbers in our models to reflect updated guidance.

Company developments remain on schedule. Construction of an ilmenite concentration plant is expected to be completed in the second quarter with commissioning and ramp up to follow. We look for the plant to begin contributing to revenues by the end of the year. Meanwhile, vanadium prices remain strong, the vanadium battery installation in Spain is progressing, and the firm's financial position is solid. We continue our Outperform rating and our $11 price target.

Equity Research

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Refer to the last two pages for Analyst Certification & Disclosures

Company Profile

Largo Inc. (Largo or LGO, formerly Largo Resources Ltd.) is a global leader in manufacturing high-quality vanadium products. Vanadium is used in various steel applications, chemicals & catalysts, and Vanadium Redox Flow Batteries (VRFB). Largo produces low-cost vanadium from its Maracas Menchen Mine in Brazil, the world's highest-grade primary vanadium mine. Its clean energy business, Largo Clean Energy (LCE), manufactures high performance, long duration, stackable VRFBs using its patented VCHARGE technology. Largo Physical Vanadium, which trades on the TSX Venture Exchange under the symbol VAND, is designed to provide investors direct exposure to physical vanadium. In summary, the company is active in all aspects of the vanadium sector along with the development of long-lived, large scale, green energy storage systems using vanadium.

The company's stock trades on the NASDAQ and the Toronto Stock Exchange under the symbol LGO. There are approximately 64 million shares of common stock outstanding, and the stock has a market capitalization of approximately US$385 million or C$515 million. Insiders own less than 1% of the stock. Institutional investors own roughly 67% of the stock. Arias Resource Capital, a private equity firm that invests in metals & mining companies, owns 44% of the stock. Arias was an initial investor in the Largo's formation and has increased its ownership position to demonstrate support of the company throughout its many phases of growth over the last ten years.

Fundamental Analysis – 4.5 / 5.0 Checks

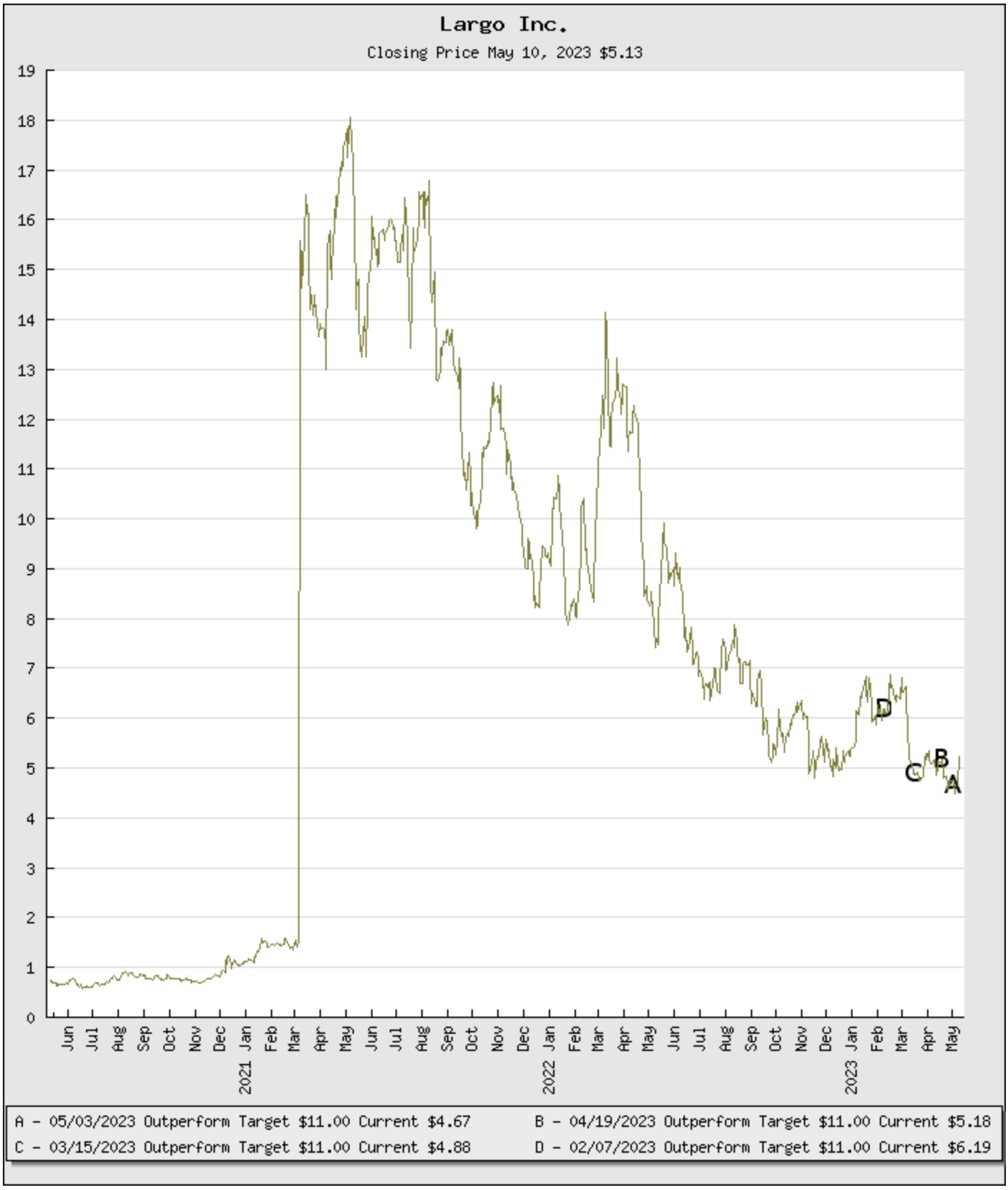
Our fundamental assessment rating, separate from our investment rating and valuation, is based on five attributes consisting of corporate governance/management, market opportunity, competitive position, operating leverage, and financial leverage. We assign 4.5 checks out of 5.0 checks, which falls within our "Above Average" range. The company's corporate governance practices are above average with significant external oversight of management (five of six board members are independent including the chairman). We view Largo's market opportunity favorably given growing demand for vanadium and additional market opportunities in other minerals. Largo's competitive position is strong given its size and low-cost operations. Operating leverage is high given its low cost structure and leverage to vanadium prices. Financial leverage is average due to the company's favorable cash position but challenging upcoming financing needs. For further explanation of our fundamental analysis, refer to the disclosures at the end of this report.

Valuation Summary

We believe Largo, Inc. offers investors an attractive way to plan an expected growth in the demand for vanadium due to its use in large-scale energy storage. Largo is the largest producer of vanadium outside of China and Russia. The high vanadium concentration of its Maracas Menchen Mine in Brazil makes Largo one of the lowest-cost producers of vanadium in the world. The strengthening of vanadium prices in recent months should help improved near-term cash flow. In addition, Largo is close to completing a new plant to manufacture Ilmenite, which should grow revenues. A proposed plant to produce titanium dioxide would provide additional growth in the next five to ten years. We believe, that at the company's current stock price, the market does not give the company credit for growing vanadium demand nor its planned expansion into other mineral production.

Our twelve-month price target for the shares of Largo Inc. is $11 per share (CAD$13.50 for the shares of LGO on the Toronto Exchange). Our price target is based on a two-stage discounted cash flow analysis that assumes a weighted average cost of capital of 20%, projected present value after-maintenance cash flow of $655 million and expected net cash of $40 million at the end of 2023.

As a check to our discounted cash flow valuation, we perform a net asset value calculation. An independent technical report estimates the net present value of mining operations using a 7% discount rate to be $2.0 billion or over $30 per share. While we could argue with the pricing assumptions or discount rate used in the technical report, we believe its conclusion adds support to our valuation estimate.


Largo Inc.
Closing Price May 10, 2023 $5.13
19
18
17
16
15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
0
Jun Jul Aug Sep Oct Nov Dec 2021 Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2022 Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2023 Jan Feb Mar Apr May
A
B
C
D
A - 05/03/2023 Outperform Target $11.00 Current $4.67
B - 04/19/2023 Outperform Target $11.00 Current $5.18
C - 03/15/2023 Outperform Target $11.00 Current $4.88
D - 02/07/2023 Outperform Target $11.00 Current $6.19

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Noble intends to seek compensation for investment banking services and non-investment banking services (securities and non-securities related) within the next 3 months.

Noble is not a market maker in the Company.

FUNDAMENTAL ASSESSMENT

The fundamental assessment rating system is designed to provide insights on the company's fundamentals both on a macro level, which incorporates a company's market opportunity and competitive position, and on a micro/company specific level. The micro/company specific attributes include operating & financial leverage, and corporate governance/management. The number of check marks that a company receives is designed to provide a quick reference and easy determination of the company's fundamentals based upon the following five attributes of the company (weighting reflects the importance of each attribute in the overall scoring of company's fundamental analysis):

Attribute	Weighting
Corporate Governance/Management	20%
Market Opportunity Analysis	20%
Competitive Position	20%
Operating Leverage	20%
Financial Leverage	20%

For each attribute, the analysts score the company from a low of zero to a high of ten based upon the analysis described below. The final rating and resulting check marks is a result of dividing the overall score (out of 100%) by ten.

Rating	Score	Checks
Superior	9.1 to 10	Five Checks
Superior	8.1 to 9	Four & A Half Checks
Above Average	7.1 to 8	Four Checks
Above Average	6.1 to 7	Three & A Half Checks
Average	5.1 to 6	Three Checks
Average	4 to 5	Two & A Half Checks
Below Average	3 to 3.9	Two Checks
Below Average	2 to 2.9	One & A Half Checks
Low Quality	0 to 1.9	One Check

While these are the attributes currently used for the analyst's fundamental analysis, the attributes and weighting may be reviewed, updated with additional attributes, and/or changed in the future based on discussions with the analysts and recommendations from the Director of Research.

Following is the description of each attribute in the fundamental analysis.

Corporate Governance/Management

We believe that a review of corporate governance and assessment of the senior management are important tools to determine investment merit. Good corporate governance aligns management with the interests of stakeholders. As such, analysts are to rank the company on the basis of good corporate governance principles that may include rules and procedures, board composition and staggered term limits, rights and responsibilities, corporate objectives, monitoring of actions and policies, and accountability. In addition, analysts will assess issues with controlling shareholders and whether decisions have been made in the past that were in the interests of all shareholders. In addition, management will be assessed based on industry experience, expertise, and/or track record.

High ranking example: Board and management that is aligned with the interests of shareholders with incentives based on stock price appreciation and with an experienced management team known for exceptional shareholder returns.

Low ranking example: Concentrated ownership without independent directors that do not necessarily align with all shareholders' interests.

The Market Opportunity Analysis

In this review, the analyst assesses the company's macro environment as a measure of understanding the industry. Factors considered include the size and growth potential of the industry under various economic conditions, the emerging demands in the market, technological benefits/disruptions, competition, geographical opportunities, and customer demands/needs, and an assessment of supply and distribution channels. In addition, the analyst will review legal and regulatory trends, as well as potential shifts in consumer or social behavior and natural environment changes.

High rank example: A company in an industry that is growing revenues well above GDP rates (which are on average 2% plus) and/or may have unmet or under-served needs in a rapidly growing market opportunity.

Low rank example: A mature industry that is in secular decline and likely to grow below GDP rates.

Competitive Position

The evaluation of the company's competitive position is another macro environment attribute designed to measure the relevance, market share, position and value proposition, and sustainable differentiations of the company and its products/services within its industry. Ease of entry into the industry and the ability of other well-funded players to potentially enter the market would be determined. As such, the assessment would consider the company's strengths and advantages of its products/services against weaknesses and limitations. This may include the company's current brand awareness, pricing and cost structure, current market strategies and geographic penetration that may affect demand for its products/services. In addition, the company's competitors would be evaluated.

High rank example: An analyst would consider the company's product to be superior to its competitors and that should allow the company to gain market share.

Low rank example: A company with a "me-too" product that does not have any significant technology advantages in an industry that has low barriers to entry.

Operating Leverage

Simplistically, operating leverage is determined by the operating income relative to changes in revenue. The analyst will calculate the impact on sensitivity on gross margins and variable costs to determine operating leverage. The analyst will take into account the ability of the company to cut fixed and variable costs in a challenged revenue environment and technological changes that may impact operating expenses. In addition, the analyst is to assess corporate strategies that include capital investment, which may be required for sustainable revenue growth, marketing expenses, and the company's ability to attract and retain talent and/or employees. The analyst should focus on the revenue opportunity and determine the price elasticity of demand for the company's products or services. In other words, the analyst is to rank the company based on improved operating margins going forward on an absolute and relative basis.

High rank example: A company that has improving margins for the foreseeable future, with significant price elasticity.

Low rank example: A company that is in a challenged revenue environment with a fixed cost structure and limited ability to cut costs, indicating an outlook for declining margins.

Financial Leverage

A strict definition of financial leverage is total debt divided by total shareholder's equity. Financial leverage analysis is to determine the company's ability to improve shareholder value by means of utilizing its balance sheet to grow organically or to acquire assets. Analysts may look at the company's debt to cash flow leverage ratio, interest coverage ratios, or debt to equity ratios. In addition, the interest rate environment and the outlook for interest rates are a factor in determining the company's ability to manage financial leverage. Finally, the analyst is expected to determine the ability to service the debt given the industry and/or company profile, such as cyclicality, barriers to entry, history of bankruptcy, consistency in revenue and profit growth, or predictability in sales and profits and large cash reserves. The analyst is expected to take into account capital intensity of the company and the anticipated of capital allocation decisions.

High rank example: A company with predictable and growing revenue and cash flow with modest debt levels. This may indicate that the company could improve shareholder value through growth investments, including acquisitions, using debt financing.

Low rank example: A company in a cyclical industry in a late stage economic cycle that has above average debt leverage and is in an industry that has a history of financial challenges, including bankruptcies.

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FINRA licenses 7, 63, 86, 87.

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NOBLE RATINGS DEFINITIONS	% OF SECURITIES COVERED	% IB CLIENTS
Outperform: potential return is >15% above the current price	92%	24%
Market Perform: potential return is -15% to 15% of the current price	8%	1%
Underperform: potential return is >15% below the current price	0%	0%

NOTE: On August 20, 2018, Noble Capital Markets, Inc. changed the terminology of its ratings (as shown above) from "Buy" to "Outperform", from "Hold" to "Market Perform" and from "Sell" to "Underperform." The percentage relationships, as compared to current price (definitions), have remained the same.

Additional information is available upon request. Any recipient of this report that wishes further information regarding the subject company or the disclosure information mentioned herein, should contact Noble Capital Markets, Inc. by mail or phone.

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