



Pilbara Minerals Ltd (PLS.ASX)

DSO – Earlier to mine and earlier to sales

Event:

- DSO agreement; ROFR settlement; Earnings changes.

Investment Highlights:

- **DSO project brings forward cashflow and earnings.** PLS recently announced it had reached agreement with Shandong Ruifi Lithium Co of China to supply 1.9Mt of appx 1.5% Li₂O direct shipping ore (DSO) over two years. First shipment is targeted in July 2017, six months before our anticipated first shipment of spodumene 6.0% Li₂O concentrate. The agreement brings forward PLS' transition to miner and generation of revenue, and importantly buffers cashflow and earnings during the period when concentrate production is ramping up.
- **US\$10M prepayment.** As part of the agreement, PLS will receive a US\$10M prepayment which we expect will occur once major construction works, in 1QCY2017.
- **Outstanding valuation metrics: NPV₁₀ of \$71M for \$2M capex.** We estimate the NPV of the DSO project is \$71M, with incremental capex of only \$2M, as the project will utilise some of the infrastructure and logistics to be committed for the main Pilgangoora concentrate project.
- **Negotiations with Shandong for concentrate offtake could result in majority being accounted for.** In addition to DSO, Shandong is in discussions with PLS over 6% spodumene concentrate offtake. General Lithium accounts for 140kt. We expect Shandong to express interest in at appx. 120kt, which will mean ca. 75% of the Pilgangoora product will be spoken for.
- **Extinguishment of ROFR and lithium royalty enhances project appeal.** PLS has cancelled the 2.5% third party royalty and ROFR by issuing MIN with 104M PLS shares for nil consideration. While slightly dilutive to our NPV of PLS, it does enhance the project appeal and streamline future offtake agreements. MIN is also incentivised to support the Pilgangoora project, and we anticipate it will likely add value via some involvement, given its reputable experience as mining services contractor.

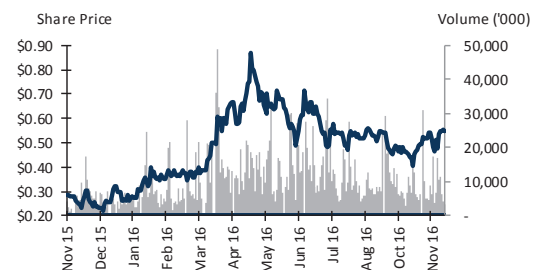
Earnings and Valuation:

- **Earnings upgrade.** We have included the DSO project in our forecasts and removed the third party 2.5% royalty on lithium. This has increased our NPAT forecasts for FY18e and FY19e by 56% and 37% to \$74M and \$131M.
- **Risked valuation unchanged at \$0.77/share.** After various changes to our model, our risked valuation of PLS remains unchanged, with the positive impact of DSO and royalty cancellation offset by issue of shares to MIN.
- **Multiples support upside to shareprice.** On FY18e earnings, PLS is trading at 11.4x PE and 5.1x EBITDA – 24% and 19% discounts to average for miners. We expect market will rerate PLS as major milestones towards production are achieved (financing, approvals, construction, commissioning).

Recommendation:

- **We maintain our Buy recommendation and price target of \$0.77/share** based on our risked valuation. Catalysts include securing further offtake; financing progress; positive JV lithium conversion plant study results; higher lithium prices; commissioning of DSO and concentrate production.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$0.77			
Previous	\$0.77			
Share Price (A\$)	\$ 0.545			
ASX Code	PLS			
52 week low - high (A\$)	0.22-0.87			
Valuation (A\$/share) - risked	\$0.77			
Methodology	DCF			
Capital structure				
Shares on Issue (M)	1,260			
Market Cap (A\$M)	686			
Net Cash/(Debt) (A\$M)	94			
EV (A\$M)	592			
Options (M)	109			
Fully diluted EV (\$M)	652			
12mth Ave Daily Volume ('000)	9,906			
Y/e Jun (A\$M)	2016a	2017e	2018e	2019e
Sales	0.0	0.0	248.4	420.0
Adj EBITDA	-41.8	-8.7	114.6	207.3
Adj NPAT underlying	-44.3	-6.8	73.9	131.1
Adj EPS diluted \$	-0.05	0.00	0.05	0.09
PER x diluted	nm	nm	11.4	6.4
EV/EBITDA x	nm	nm	5.1	3.1
*Adj = underlying FSB estimate				
Board				
Tony Kiernan	Non-Executive Chairman			
Ken Brinsden	Managing Director			
Neil Biddle	Non-Executive Director			
Robert G Adamson	Non-Executive Director			
Steve Scudamore	Non-Executive Director			
John Young	Executive Director			
Substantial shareholders				
Mineral Resources Ltd	8.3%			
Share Price Graph				



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Foster Stockbroking acted as Sole Lead Manager to the \$12M placement of 52M shares at \$0.23 in November 2015. Foster Stockbroking received fees for this service.