



Pilbara Minerals Ltd (PLS.ASX)

Moving slowly but prize still lucrative

Event:

- Review of PLS progress; Lithium price upgrades; Price-target change.

Investment Highlights:

- Since our last report, PLS has continued to slowly progress its Pilgangoora project. Major milestones achieved included first earthworks; grant of mining permit; signing of access agreements; securing of water supply for the 2Mtpa stage; and award of process plant contract in-line with DFS estimates.
- Resource upgrade paves way for increase in Reserves. PLS also increased its JORC Resource for Pilgangoora by 22% to 156Mt, with grade also increasing to 1.25% vs 1.22% previously. The company anticipates publishing an updated Reserves statement in the June quarter.
- New network results in higher recoveries and concentrate grades. From a modified HMS plant, PLS has reported improved HMS recoveries of 52%-68% (42%-45% previously) with concentrate grades >6.0%. These improved recoveries have potential to reduce unit costs and increase production over that in the DFS. The company is also looking at improving flotation performance.
- The two major outstanding issues to finalise are offtake and financing. These are taking longer than we had expected, and certainly the crack down by China on capital and investment outflows has not helped. We now expect both financing and offtake to be finalized concurrently by end July 2017, vs our previous forecast end January 2017 and company guidance end March 2017.
- Pushing out timeline for first production. In line with pushing out our expectation of offtake/financing completion, we have delayed the timeline for plant commissioning by three months to March 2018e (prior December 2017e) and first spodumene concentrate shipment to July 2018e (prior April 2018e). Similarly, we have delayed expectation of first DSO mining by three months to July 2017 and shipment in October 2017. This results in cutting our spodumene concentrate production forecast in FY18e to nil and in FY19e by 30% to 228kt, while DSO in FY18e has reduced 25% to 713kt.
- Lithium price upgrades. We have upgraded our spodumene SC6.0 (6.0% Li₂O) prices by 16% to US\$648/t in FY2017, 23% to US\$684/t in FY2018e, and 18% to US\$638/t in FY2019e which are now more in-line with consensus. Recent settled prices are above consensus, including US\$750/t for Mt Marion and US\$900/t for Mt Cattlin.

Earnings and Valuation:

- Earnings downgrade to FY17e and FY18e; upgrade to FY19e and beyond. We have downgraded forecast earnings in FY17e and FY18e to -\$27M and \$54M due to reduced production forecasts. However our FY19e forecasts and beyond have increased due to our lithium price upgrades. Our risked valuation increases 10% to \$0.85/share from \$0.77/share.

Recommendation:

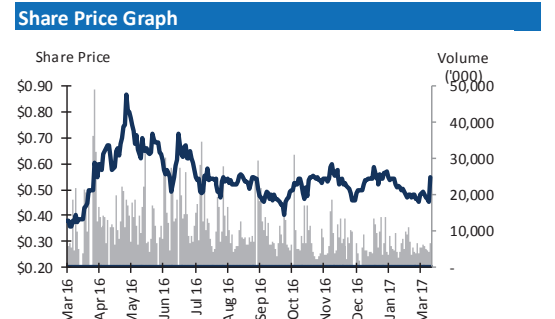
- We maintain our Buy recommendation and increase our price target to \$0.85 (previously \$0.77) based on our risked valuation. While progress is slow, we believe that PLS will eventually achieve the requisite funding and offtake – which we see as the two major share price catalysts – to successfully bring Pilgangoora into production on attractive terms.

Recommendation		Buy		
Previous		Buy		
Risk		High		
Price Target		\$0.85		
Previous		\$0.77		
Share Price (A\$)		\$ 0.455		
ASX Code		PLS		
52 week low - high (A\$)		0.22-0.87		
Valuation (A\$/share) - risked		\$0.85		
Methodology		DCF		
Capital structure				
Shares on Issue (M)		1,267		
Market Cap (A\$M)		576		
Net Cash/(Debt) (A\$M)		80		
EV (A\$M)		496		
Options (M)		113		
Fully diluted EV (\$M)		548		
12mth Ave Daily Volume ('000)		10,207		
Y/e Jun (A\$M)	2016a	2017e	2018e	2019e
Sales	0.0	0.0	138.8	390.8
Adj EBITDA	-41.8	-28.6	62.3	206.1
Adj NPAT underlying	-44.3	-26.7	52.8	132.7
Adj EPS diluted \$	-0.05	0.00	0.05	0.09
PER x diluted	nm	nm	13.7	5.5
EV/EBITDA x	nm	nm	8.5	2.8

*Adj = underlying FSB estimate

Board	
Tony Kiernan	Non-Executive Chairman
Ken Brinsden	Managing Director
Neil Biddle	Non-Executive Director
Nick Cernotta	Non-Executive Director
Steve Scudamore	Non-Executive Director
John Young	Executive Director

Substantial shareholders	
Mineral Resources Ltd	8.2%



Analyst: Mark Fichera +612 9993 8162
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 The analyst owns 233,034 shares in PLS.