



## Pilbara Minerals Ltd (PLS.ASX)

### Ganfeng comes to Pilgangoora

#### Event:

- **PLS binding offtake and finance agreement with Ganfeng; March Quarterly.**

#### Investment Highlights:

- **On 2 May PLS announced it signed a binding offtake and financing support agreement with Ganfeng Lithium (Ganfeng), one of China's largest lithium producers.**
- **Offtake.** PLS will supply Ganfeng with 160ktpa of chemical grade spodumene (SC6.0) from Stage 1 and up to a maximum of 150ktpa from Stage 2, contingent on providing Stage 2 funding commitments.
- **Financing.** Ganfeng will subscribe for a minimum of US\$20M (\$27M) in any equity placement by PLS to contribute to Stage 1 financing. For Stage 2, Ganfeng will provide support via debt funding or offtake pre-payment comprising up to 50% of Stage 2 capital and development costs.
- **A notable feature of the agreement is the strong interest Ganfeng has expressed for offtake and financing of Stage 2.** We believe this enhances the probability of Stage 2 being implemented.
- **Ganfeng brings credibility and experience.** Ganfeng is well acquainted with both investing in and purchasing Western Australia spodumene, being an offtaker and equity owner in the Mt Marion lithium mine. We believe Ganfeng is seeing to diversify supply and seeking access to large long-life offtake.
- **All Stage 1 SC6.0 offtake now accounted for.** The agreement with Ganfeng, together with the earlier announced offtake with General Lithium (140ktpa), means that all 300ktpa of SC6.0 is now accounted for.
- **Milestones to come.** Key outstanding issues are Mining Proposal and Closure Plan approval, tantalum and technical grade spodumene (SC7.0) offtake agreements, and closure of financing. We expect these to close by end June. We also expect positive revised financial modelling of Stage 1 and Stage 2 DFS in 2HCY2017, based on improved metallurgical tests.
- **We now assume 60:40 debt-equity funding.** We estimate PLS will need to spend \$246M on capex, working capital, corporate, studies, and other. The company had \$66M cash end March, implying a funding gap of \$181M. We assume \$72M will come from equity, of which Ganfeng and General Lithium should contribute at least \$45M. We assume debt to be \$109M. These are our assumptions only and not that of the company.

#### Earnings and Valuation:

- **We have reduced FY18e and FY19e earnings based on pushing back the DSO project and higher study/exploration costs.** Our risked valuation has slightly increased to \$0.86/share (prior \$0.85) based on roll-forward of our DCF and assumption of higher debt funding, offsetting a more dilutive equity issue price.

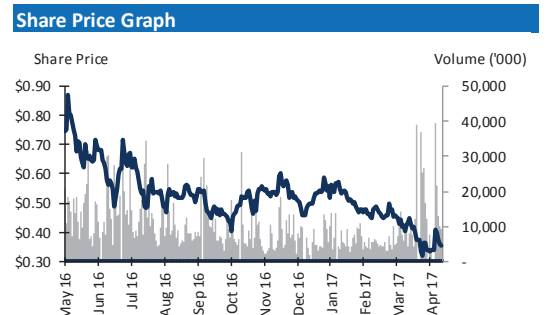
#### Recommendation:

- **We maintain our Buy recommendation and our 12-month price target is raised slightly to \$0.86** (previously \$0.85) based on our valuation. Catalysts include mining proposal approval; closure of debt and equity financing, including placements to General Lithium and Ganfeng; offtake for tantalum and technical grade spodumene; revised stage 1 modelling; and Stage 2 DFS.

<b>Recommendation</b>	<b>Buy</b>			
Previous	Buy			
Risk	High			
<b>Price Target</b>	<b>\$0.86</b>			
Previous	\$0.85			
<b>Share Price (A\$)</b>	<b>\$ 0.355</b>			
ASX Code	PLS			
52 week low - high (A\$)	0.3125-0.87			
<b>Valuation (A\$/share) - risked</b>	<b>\$0.86</b>			
Methodology	DCF			
<b>Capital structure</b>				
Shares on Issue (M)	1,277			
<b>Market Cap (A\$M)</b>	<b>453</b>			
Net Cash/(Debt) (A\$M)	66			
<b>EV (A\$M)</b>	<b>388</b>			
Options (M)	103			
<b>Fully diluted EV (\$M)</b>	<b>424</b>			
12mth Ave Daily Volume ('000)	9,935			
<b>Y/e Jun (A\$M)</b>	<b>2016a</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>
Sales	0.0	0.0	92.5	390.8
Adj EBITDA	-41.8	-28.6	18.3	195.1
<b>Adj NPAT underlying</b>	<b>-44.3</b>	<b>-26.7</b>	<b>23.3</b>	<b>122.4</b>
<b>Adj EPS diluted \$</b>	<b>-0.05</b>	<b>-0.02</b>	<b>0.01</b>	<b>0.08</b>
<b>PER x diluted</b>	<b>nm</b>	<b>nm</b>	<b>24.1</b>	<b>4.6</b>
EV/EBITDA x	nm	nm	19.3	2.0
*Adj = underlying FSB estimate				

<b>Board</b>	
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

<b>Substantial shareholders</b>	
Mineral Resources Ltd	8.2%



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 The analyst owns 233,034 shares in PLS.