



Pilbara Minerals Ltd (PLS.ASX)

Site visit confirms progress and efforts into derisking

Event:

- Pilgangoora site visit; Company update.

Investment Highlights:

- We attended a site visit at Pilgangoora on July 20th and came away suitably impressed** with the scale of the project, early earthworks progress, grade control drilling, and the road, camp, and port infrastructure.
- Grade control drilling minimising Resources risk.** PLS' grade control drilling on the Central pit has been as tightly spaced as 12.5m. Reconciliation of results with that of Resources and Reserves has been very high across tonnages, contained lithia, and grade.
- We visited Port Hedland berths 1 and 2 which are operated by Qube Logistics** and from which concentrate will be transported in rotainers and loaded on to handymax ships by mobile crane. We also inspected camp facilities of which 60 rooms were constructed and the balance (total of 300) to be completed by end September.
- PLS has awarded Stage 2 plant construction to RCR Tomlinson and the bulk civil earthworks to NRW.** We expect first pour of concrete this month, and that of structural concrete for the plant in September.
- Financing completed.** In July PLS completed an equity and debt financing totaling \$227M comprising \$132M debt and \$95M equity. The proceeds will fund Pilgangoora capex, as well as exploration, working capital, corporate, and liquidity reserves. The only outstanding financing is \$18M equity placement from General Lithium which we expect to be finalised by the end of the 3QCY17.
- Increase in Reserves extends mine life to 40 years.** JORC Reserves for Pilgangoora have increased to 80.3Mt (prior 69.8Mt), extending mine life by five years at 2Mtpa. The increase in Reserves makes the expansion case more compelling in bringing forward cashflows. This, together with increased offtake interest and further scope to add Resources, has seen PLS now commence studies to examine a 5Mtpa case expansion instead of the previous 4Mtpa.
- Recent news puts demand outlook in favourable spotlight.** This includes French and UK governments seeking to ban sales of petrol and diesel vehicles by 2040, as well as Volvo announcing all cars to contain an electric engine by 2019.

Earnings and Valuation:

- We have reduced FY18e and FY19e earnings principally by removing the DSO project** from our forecasts, as well as higher interest expense on the debt than we had previously forecast. We await material progress on DSO before revisiting it.
- Our risked valuation has slightly decreased to \$0.82/share (prior \$0.86)** mostly due to the equity raising being higher than we had forecast, as well as further risking the DSO project.

Recommendation:

- We maintain our Buy recommendation and our 12-month price target is now \$0.82 (prior \$0.86) in-line with our valuation.** Catalysts placements to General Lithium finalised; offtake for tantalum and technical grade spodumene; study results on 5Mtpa expansion; plant commissioning.

| | |
|---------------------------------------|-----------------|
| Recommendation | Buy |
| Previous | Buy |
| Risk | High |
| Price Target | \$0.82 |
| Previous | \$0.86 |
| Share Price (A\$) | \$ 0.385 |
| ASX Code | PLS |
| 52 week low - high (A\$) | 0.3125-0.6 |
| Valuation (A\$/share) - risked | \$0.82 |
| Methodology | DCF |
| Capital structure | |
| Shares on Issue (M) proforma* | 1,548 |
| Market Cap (A\$M) proforma* | 596 |
| Net Cash/(Debt) (A\$M) proforma* | 116 |
| EV (A\$M) proforma* | 480 |
| Options (M) | 101 |
| Fully diluted EV (\$M) | 519 |
| 12mth Ave Daily Volume ('000) | 9,935 |

*incl shares & proceeds from \$95M placement & SPP

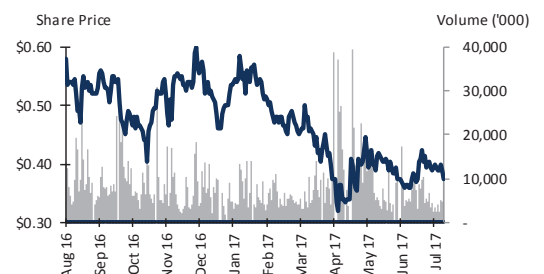
| Y/e Jun (A\$M) | 2016a | 2017e | 2018e | 2019e |
|----------------------------|--------------|--------------|--------------|-------------|
| Sales | 0.0 | 0.0 | 0.0 | 232.6 |
| Adj EBITDA | -41.8 | -34.9 | -19.1 | 130.3 |
| Adj NPAT underlying | -44.3 | -33.0 | -33.5 | 92.8 |
| Adj EPS diluted \$ | -0.05 | -0.02 | -0.02 | 0.05 |
| PER x diluted | nm | nm | nm | 6.9 |
| EV/EBITDA x | nm | nm | nm | 4.1 |

*Adj = underlying FSB estimate

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

| Substantial shareholders | |
|---------------------------------|------|
| Mineral Resources Ltd | 8.2% |

Share Price Graph



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