



## Pilbara Minerals Ltd (PLS.ASX)

Stage 2 now firmly on the horizon

### Event:

- Great Wall agreement; Earnings, valuation and price target changes.

### Investment Highlights:

- PLS recently announced offtake, funding, and placement agreement with Great Wall.** The latter will subscribe for \$28M in equity at \$0.50 as well as having option to provide US\$50M in financing/prepayment in return for up to 150ktpa Stage 2 offtake. Great Wall's placement effectively replaces that previously proposed by General Lithium. However the latter remains as offtaker for Stage 1 product.
- Financing effectively complete for Stage 2.** We believe the agreement with Great Wall mostly completes the requisite financing for the 5Mtpa Stage 2 project. Both Great Wall, and Ganfeng previously, have agreed provide up to ca. \$65M each, or \$130M, in financing or prepayment. We estimate capex for Stage 2 to be \$160M, and believe that the balance can be funded out of cashflows from Stage 1.
- Offtake of up to 600tpa now accounted for.** We now estimate up to 600ktpa of potential 800ktpa spodumene offtake has been accounted for between Ganfeng, General Lithium, and Great Wall.
- Attraction of long life reserves.** We believe the willingness of both Great Wall and Ganfeng to access Stage 2 offtake highlights the attraction that Pilgangoora's long life JORC Reserves hold for those seeking to secure long-term supply.

### Earnings and Valuation:

- We now include the 5Mtpa stage 2 operation for the first time in our earnings forecasts.** We believe that Great Wall's and Ganfeng's underpinning of financing and offtake, together with the market's revised increased demand forecasts for lithium, means that Stage 2 going ahead is now more likely than not.
- We forecast a gradual ramp up of Stage 2 from FY21e, in the third year of our forecast production.** Our processed ore forecasts are 1.25Mt and 2Mt in FY19e and FY20e (both unchanged), while we now forecast 3Mt in FY21e, 4Mt in FY22e, and 5Mt in FY23e (up from previously 2Mt each).
- Our forecast NPAT for FY19e, FY20e, and FY21e are \$94.8M, \$115.5M, and \$150.4M, up 2%, 2%, and 40% from our prior estimates.** The significant increase in FY21e is due to the commencement of Stage 2.
- Our risked valuation has increased to \$1.04/share (prior \$0.82) mostly as a result of now giving higher weighting to Stage 2 (60% vs 30% previously), due to the derisking of the project by the agreement with Great Wall.**

### Recommendation:

- We maintain our Buy recommendation while our 12-month price target has increased to \$1.04 up from \$0.82, in-line with our revised valuation.**
- Catalysts** include offtake agreements for tantalum and technical grade spodumene; logistics contract; commissioning of process plant; first shipment of ore; DFS results of Stage 2.

|                                       |                 |
|---------------------------------------|-----------------|
| <b>Recommendation</b>                 | <b>Buy</b>      |
| Previous                              | Buy             |
| Risk                                  | High            |
| <b>Price Target</b>                   | <b>\$1.04</b>   |
| Previous                              | \$0.82          |
| <b>Share Price (A\$)</b>              | <b>\$ 0.750</b> |
| ASX Code                              | PLS             |
| 52 week low - high (A\$)              | 0.3125-0.815    |
| <b>Valuation (A\$/share) - risked</b> | <b>\$1.04</b>   |
| Methodology                           | DCF             |
| <b>Capital structure</b>              |                 |
| Shares on Issue (M) proforma*         | 1,559           |
| <b>Market Cap (A\$M) proforma*</b>    | <b>1,169</b>    |
| Net Cash/(Debt) (A\$M) proforma*      | 125             |
| <b>EV (A\$M) proforma*</b>            | <b>1,044</b>    |
| Options (M)                           | 103             |
| <b>Fully diluted EV (\$M)</b>         | <b>1,121</b>    |
| 12mth Ave Daily Volume ('000)         | 8,936           |

\*Incl. Great Wall placement

| Y/e Jun (A\$M)             | 2017a        | 2018e        | 2019e       | 2020e        |
|----------------------------|--------------|--------------|-------------|--------------|
| Sales                      | 0.0          | 0.0          | 220.0       | 331.7        |
| Adj EBITDA                 | -27.9        | -20.6        | 124.5       | 189.9        |
| <b>Adj NPAT underlying</b> | <b>-25.9</b> | <b>-35.1</b> | <b>94.8</b> | <b>115.5</b> |
| <b>Adj EPS diluted \$</b>  | <b>-0.02</b> | <b>-0.02</b> | <b>0.06</b> | <b>0.07</b>  |
| <b>PER x diluted</b>       | <b>nm</b>    | <b>nm</b>    | <b>13.3</b> | <b>10.9</b>  |
| EV/EBITDA x                | nm           | nm           | 7.1         | 4.7          |

\*Adj = underlying FSB estimate

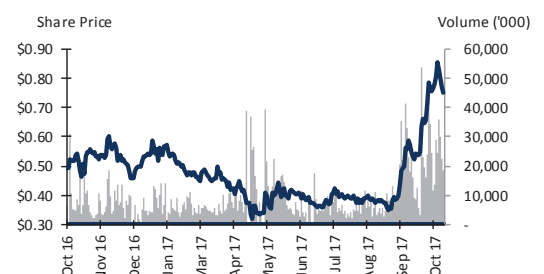
### Board

|                 |                        |
|-----------------|------------------------|
| 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

[mark.fichera@fostock.com.au](mailto:mark.fichera@fostock.com.au)

The analyst owns 254,462 shares in PLS.