



Pilbara Minerals Ltd (PLS.ASX)

DSO cash uplift to more than offset higher capex

Event:

- **DSO agreement; Capex revision; Earnings and price-target changes.**

Investment Highlights:

- **PLS last month reached an agreement with Atlas Iron (AGO) to sell Pilgangoora direct shipping ore (DSO) at mine gate for 1-1.5Mt at 1.5% Li₂O ore over 12-15 months.** Sales are to commence in March 2018 and will be mined from the Monster deposit. AGO will be responsible for crushing and haulage of the ore, and has its own agreement with end customer Sinosteel. A US\$3M pre-payment by AGO to PLS is a pre-condition for sales.
- **We estimate NPV of the DSO project of \$113M.** We assume a mine gate sale price of US\$55/t and total costs of US\$18/t, mostly for mining the ore.
- **Capex revised upwards by \$50M.** PLS last month revised capital estimates comprising increase of \$40M for the concentrator project, \$5M for DSO and \$5M for early Stage works. Most of capex increase is to enhance beneficiation and reflects the pilot plant testwork undertaken post DFS, as well as to accelerate the EPC contract.
- **Downstream processing option.** PLS stated it is still in discussions for opportunities in downstream processing, both with China and non-China parties, including South Korea. Although we do not include any contribution in our earnings forecasts, we have introduced some value for the opportunity in our valuation, albeit aggressively discounted given no binding agreement has been reached.
- **Partial tantalum offtake secured.** PLS announced it had reached agreement with Global Advanced Metals (GAM) to supply 100klbs of the forecast 321klbs of Stage 2 tantalite output, in the form of 4%-5% concentrate over a two year term.
- **December quarterly highlights progress.** Of note was commencement of pre-strip, construction of roads and TSF, completion of major bulk earthworks, mobilisation of crushing contractor, advancement of process plant and delivery of ball mill and thickeners. Cash end December was \$72M with no debt yet drawn down.

Earnings and Valuation:

- **We have increased our earnings forecasts mostly due to inclusion of DSO, as well as lifting short-term lithium prices.** We now forecast loss of -\$13M in FY18e, and NPAT of \$188M and \$156M in FY19e and FY20e (prior: -\$35M, \$95M, \$116M).
- **Our valuation has increased to \$1.12/share** (previously \$1.04), mostly due the DSO and lithium price increases, which have more than offset higher capex.

Recommendation:

- **We maintain our Buy recommendation while our 12-month price target has increased to \$1.12 up from \$1.04, in-line with our revised valuation.**
- **Catalysts for the share price include:** First DSO sales; Commissioning of process plant; First shipment of spodumene concentrate; DFS results of Stage 2; and Upgrade in JORC Reserves.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.12
Previous	\$1.04
Share Price (A\$)	\$ 1.01
ASX Code	PLS
52 week low - high (A\$)	0.31-1.25
Valuation (A\$/share) - risked	\$1.12
Methodology	DCF
Capital structure	
Shares on Issue (M)	1,646
Market Cap (A\$M)	1,662
Net Cash/(Debt) (A\$M)	72
EV (A\$M)	1,590
Performance rights	0
Options (M)	72
Fully diluted EV (\$M)	1,663
12mth Ave Daily Volume ('000)	12,294

Y/e Jun (A\$M)	2017a	2018e	2019e	2020e
Sales	0	26	384	402
Adj EBITDA	-28	1	260	255
Adj NPAT underlying	-26	-13	188	156
Adj EPS diluted \$	-0.02	-0.01	0.11	0.09
PER x diluted	nm	nm	9.2	11.1
EV/EBITDA x	nm	nm	4.8	4.9

*Adj = underlying FSB estimate

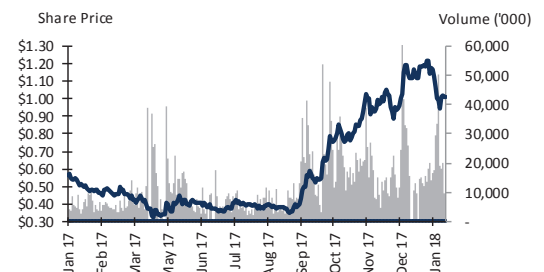
Board

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

Substantial shareholders

Mineral Resources Ltd	8.2%
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Share Price Graph



Analyst: Mark Fichera

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The analyst owns 254,462 PLS shares.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 254,462 PLS shares. Cranport Pty Ltd does not own PLS securities.