



Pilbara Minerals Ltd (PLS.ASX)

PFS for 5Mtpa Stage 2 overall in-line with our NPV

Event:

- Release of Pilgangoora 5Mtpa Stage 2 PFS.

Investment Highlights:

- PLS's PFS for Pilgangoora 5Mtpa Stage 2 operation yielded an NPV₁₀ after-tax of \$2.1b which was same as our own unrisks estimate. However there were differences in the mix concerning some assumptions.
- The PFS revealed a capex of \$207M, which was higher than our previous forecast of \$160M. Real LOM operating costs of US\$225/t were lower than our assumption of US\$250/t, mostly due to PLS assuming a higher tantalite price.
- Optimisation of feed grade increases production in earlier years. A key area where the PFS mostly exceeded our estimates was in a higher average feed of 1.36% Li₂O being mined in first nine years vs our assumption of 1.27%. This results in higher spodumene production and revenues in the initial years. For example PLS forecast peak production of 893kt spodumene in FY21e whereas we had previously estimated peak at 820kt.
- Targeting commissioning 4QCY2019. PLS is targeting an aggressive timeline with DFS in 3QCY2018 and FID soon after. Construction would commence 4QCY2018 with commissioning in 4QCY2019. We were more conservative having assumed first Stage 2 production in FY21e.
- Stage 2 funding underpinned by Great Wall and Ganfeng. We expect funding of the \$207M capex to be underpinned by PLS' agreements with Ganfeng and Great Wall, who both will provide US\$50M each, or US\$100M (A\$127M) collectively in the form of pre-payments debt financing or similar in return for 150ktpa of Stage 2 offtake each. We expect the balance to be funded from sources such as DSO and Stage 1 cash flows, further offtake agreements and or other debt/equity.

Earnings and Valuation:

- We have made changes to our Stage 2 model to reflect the PFS's higher capex and higher feed grade and spodumene production in earlier years. We have however left our spodumene and tantalite prices unchanged, and our FY21e commissioning timeline remains.
- We have increased our short-term earnings forecasts by 9% to \$199M in FY19e, 10% in FY20e to \$172M and 10% to \$184M in FY21e on the back of higher production.
- Our valuation has increased slightly to \$1.13/share (previously \$1.12), with the higher earnings in the short term mostly offsetting the higher Stage 2 capex.

Recommendation:

- We maintain our Buy recommendation while our 12-month price target has increased to \$1.13 up from \$1.12, 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; FID Stage 2; and Upgrade in JORC Reserves; and further offtake agreements.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$1.13			
Previous	\$1.12			
Share Price (A\$)	\$ 0.87			
ASX Code	PLS			
52 week low - high (A\$)	0.3125-1.25			
Valuation (A\$/share) - risked	\$1.13			
Methodology	DCF			
Capital structure				
Shares on Issue (M)	1,646			
Market Cap (A\$M)	1,432			
Net Cash/(Debt) (A\$M)	72			
EV (A\$M)	1,360			
Performance rights	0			
Options (M)	72			
Fully diluted EV (\$M)	1,423			
12mth Ave Daily Volume ('000)	12,294			
Y/e Jun (A\$M)	2017a	2018e	2019e	2020e
Sales	0	26	402	431
Adj EBITDA	-28	1	260	255
Adj NPAT underlying	-26	-13	199	172
Adj EPS diluted \$	-0.02	-0.01	0.12	0.10
PER x diluted	nm	nm	7.5	8.7
EV/EBITDA x	nm	nm	3.8	3.8

*Adj = underlying FSB estimate

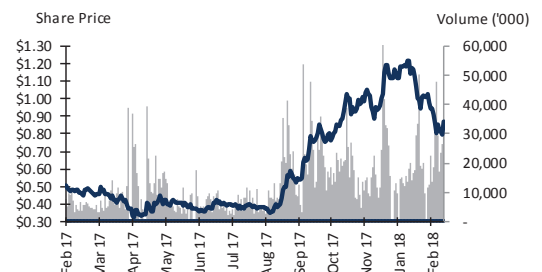
Board

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 +612 9993 8162
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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.