



Pilbara Minerals Ltd (PLS.ASX)

POSCO downstream opportunity offers an NPV boost

Event:

- POSCO agreement for offtake and downstream JV. Price target change.

Investment Highlights:

- PLS' LOM offtake agreement with POSCO for up to 240kt of Stage 2 offtake means that both Stages 1 and 2 spodumene concentrate sales are fully accounted for.** In return POSCO is subscribing for a \$79.6M equity placement in PLS at \$0.97/share which will close end March 2018.
- Initially POSCO will purchase 80ktpa of spodumene and increase it to 240ktpa upon PLS participating in a downstream 30kt LCE joint venture (JV) at 30% equity.** POSCO will have 70% and no less than 51% should another party, most likely an end user such as a battery maker, participate in the JV as well. The downstream plant will have capability to produce both lithium carbonate and lithium hydroxide.
- Stage 2 now fully funded as well.** PLS is targeting Stage 2 DFS mid-CY2018, FID in 3Q, and construction in 4Q2018. With Great Wall and POSCO only eligible for Stage 2 offtake, we expect strong momentum for Stage 2 proceeding sooner rather than later. POSCO's placement, together with previously agreed financing from Great Wall and Ganfeng, means Stage 2 capex of \$207M is fully funded.
- JV downstream interest essentially funded.** While the company has not disclosed capital or operating costs for the downstream JV, we estimate A\$400M capex based on average of industry sources for a 30kt LCE plant. This equates to \$120M for PLS' 30% interest. POSCO will provide a bond to PLS of \$80M, meaning shortfall for downstream can be easily fulfilled from mine cash flows.
- 30% interest in JV can add incremental NPV of \$141M over and above that of equivalent mine production.** We have built a conceptual model on the downstream plant assuming A\$400M capex and operating costs of US\$4,400/t of LCE (our estimates not the company's), and show it be NPV-accretive by \$141M. We anticipate the refinery and Stage 2 to commence in FY21e vs PLS' target of Stage 2 commissioning in mid-FY20e.

Earnings and Valuation:

- We have made slight changes to earnings forecasts:** -\$15M in FY18e (prior \$13M), \$201M FY19e (prior \$199M) and \$173M (prior \$172M) mostly due to lower interest expense.
- We increase our PLS valuation to \$1.21/share from \$1.13/share.** The derisking of both Stage 2 production and the downstream plant following the offtake and funding agreement with POSCO increases our DCF valuation. This more than offset the dilutive impact of the POSCO equity placement on per share valuation.

Recommendation:

- We maintain our Buy recommendation and increase our 12-month price target to \$1.21/share from \$1.13, 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.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$1.21			
Previous	\$1.13			
Share Price (A\$)	\$ 0.845			
ASX Code	PLS			
52 week low - high (A\$)	0.3125-1.25			
Valuation (A\$/share) - risked	\$1.21			
Methodology	DCF			
Capital structure				
Shares on Issue (M) pro-forma*	1,728			
Market Cap (A\$M) pro-forma*	1,460			
Net Cash/(Debt) Dec 17 (A\$M) pro-forma*	152			
EV (A\$M) pro-forma*	1,309			
Performance rights	0			
Options (M)	72			
Fully diluted EV (\$M) pro-forma*	1,369			
<i>*Includes \$80M POSCO placement of 82.1M shares</i>				
12mth Ave Daily Volume ('000)	13,819			
Y/e Jun (A\$M)	2017a	2018e	2019e	2020e
Sales	0	26	402	431
Adj EBITDA	-28	-1	276	278
Adj NPAT underlying	-26	-15	201	173
Adj EPS diluted \$	-0.02	-0.01	0.11	0.10
PER x diluted	nm	nm	7.6	8.8
EV/EBITDA x	nm	nm	3.7	3.7
<i>*Adj = underlying FSB estimate</i>				

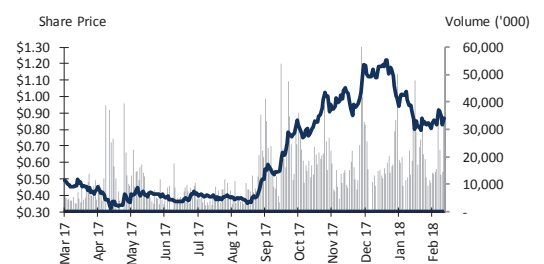
Board

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 604,462 PLS shares.

Cranport Pty Ltd owns 600,000 PLS shares.