



Pilbara Minerals Ltd (PLS.ASX)

First concentrate while Resource lift further justifies Stage 2

Event:

- Initial concentrate; Resource upgrade; Earnings and commodity price change.

Investment Highlights:

- PLS last month announced it produced initial spodumene concentrates from the flotation circuit.** While the company stated that the concentrate was yet to be tested for specifications, it stated the “plant is performing as expected”.
- The remaining stage to be commissioned in tandem with the fines circuit is the heavy media separation (HMS) circuit which is scheduled to be online in the coming weeks.** We expect a comprehensive picture of plant performance once this is commissioned.
- First concentrate sale is targeted for August 2018, this being a month later than our prior forecast of July.** The company stated production ramp up is expected to take 6-9 months vs our more conservative anticipation of a 12 month ramp up.
- First sales of DSO.** DSO mining is underway, and PLS has received both the US\$3M pre-payment and first payment for May mine gate sale from Atlas Iron.
- PLS’ May 2018 JORC Resource upgrade makes Stage 2 even more compelling.** The Pilgangoora JORC Resource increased to 213Mt @ 1.32% Li₂O vs 156Mt @ 1.25% previously. This represented an increase of 36% in ore size, 6% in grade, and 44% in contained LCE. We expect a JORC Reserve upgrade later in CY2019.
- We have revised our commodity forecasts to maintain reflection of consensus.** Our changes have been only modest, with both long term spodumene and lithium carbonate prices cut by 1% and 3% respectively, and the A\$ increased by 3%. However we have increased spodumene prices in the immediate years FY19e to FY21e.
- Lithium prices in China down YTD but carbonate bearing the brunt.** LiOH prices have only fallen -5% vs Li₂CO₃ down -23%. We believe a factor is that LiOH is preferred lithium precursor for the favoured NCM and NCA batteries vs LFP.

Earnings and Valuation:

- We have downgraded forecast FY19e NPAT by 36% to \$128M and increased that of FY20e and FY21e by 5% and 10% to \$180M and \$201M.** The downgrade in FY19e is mostly due to correcting an error in our DSO model as well as reducing our forecast spodumene production by 8% to 205kt, due to pushing back of first production and sales to August 2018.
- The upgrades in FY20e and FY21e are mostly due to higher spodumene prices.**
- Our DCF valuation of PLS has remain unchanged at \$1.21/share.** The increase in value attributable to the Resource increase has been offset by the reduction in our long-term lithium prices.

Recommendation:

- We maintain both our Buy recommendation and 12-month price target of \$1.21/share, which is in-line with our valuation.**
- Catalysts for the share price include:** Completion of plant commissioning; First shipment and sales of concentrate; DFS results of Stage 2; JORC Reserve upgrade; and FID Stage 2.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$1.21			
Previous	\$1.21			
Share Price (A\$)	\$ 1.060			
ASX Code	PLS			
52 week low - high (A\$)	0.35-1.25			
Valuation (A\$/share) - risked	\$1.16			
Methodology	DCF			
Capital structure				
Shares on Issue (M)	1,745			
Market Cap (A\$M)	1,850			
Net Cash/(Debt) Mar 18 (A\$M)	72			
EV (A\$M) pro-forma*	1,778			
Performance rights	1			
Options (M)	55			
Fully diluted EV (\$M)	1,836			
12mth Ave Daily Volume ('000)	13,298			
Y/e Jun (A\$M)	2017a	2018e	2019e	2020e
Sales	0	12	286	444
Adj EBITDA	-28	-15	166	289
Adj NPAT underlying	-26	-29	128	180
Adj EPS diluted \$	-0.02	-0.02	0.07	0.10
PER x diluted	nm	nm	14.7	10.5
EV/EBITDA x	nm	nm	7.9	4.6

*Adj = underlying FSB estimate

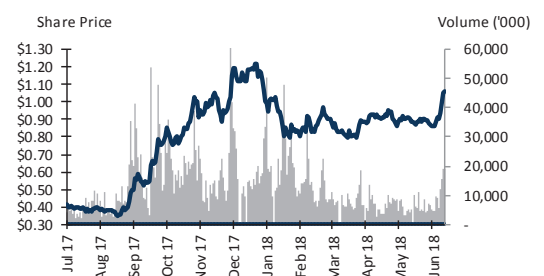
Board

Tony Kiernan	Non-Executive Chairman
Ken Brinsden	Managing Director
Nick Cernotta	Non-Executive Director
Steve Scudamore	Non-Executive Director
Sally Anne-Layman	Non-Executive Director

Substantial shareholders

Mineral Resources Ltd	8.2%
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Share Price Graph



Analyst: Mark Fichera +612 9993 8162

mark.fichera@fostock.com.au

The analyst owns 254,462 PLS shares.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 254,462 PLS shares. Cranport Pty Ltd owns 200,000 PLS shares. Refer disclosures at end of report for details.