



Piedmont Lithium Ltd (PLL.ASX)

Scoping study highlights low cost project

Event:

- Scoping study review; Change in valuation methodology; Price target change.

Investment Highlights:

- Piedmont Lithium (PLL) released a scoping study for its Piedmont project based on 170tkpa steady-state production of spodumene and chemical plant producing 22.7ktpa lithium hydroxide (LiOH).** Pre-production capex for mine and the plant were US\$110M and US\$344M. The company is aiming for first production of spodumene concentrate in 1QCY21 and first LiOH in 1QCY23.
- Mine cash costs attractive relative to peers.** Piedmont mine all-in-sustaining cash costs were US\$303/t delivered to the chemical plant. We estimate the Piedmont mine is positioned attractively in the bottom half of listed peer spodumene hard rock mine costs.
- LiOH cash cost at bottom of cost curve.** PLL showed cash costs for production of LiOH of US\$3,960/t were at the bottom of the 2018 Roskill cost curve. We did our own comparison of PLL's LiOH cost with that of some listed peers' disclosed projects and also found Piedmont to be positioned near the bottom.
- The scoping study derived an after-tax NPV₈ of US\$777M for the integrated plant and mine, based on gate prices of US\$14,000/t for LiOH and US\$685/t for spodumene SC6.0.** In contrast, we derived an unrisks valuation of US\$532M, with key differences being lithium prices CFR (we assume \$13,503/t and US\$632/t spodumene), working capital, and freight costs. Other major assumptions such as mine and plant costs and capex are in-line with the study's.

Valuation and Earnings:

- We value PLL at \$567M or \$0.34/share.** Following release of the study we have moved to a DCF methodology to value PLL. We derive an NPV₁₀ of \$0.34/share, which includes discounting the Piedmont project value by 50% and including impact of funding required for capex, corporate, studies, exploration, and working capital. We estimate a three -year payback and IRR of 33%.
- We assume future equity of \$325M and debt of \$100M in our valuation.** These are our own estimates and the final funding sources may differ materially. We also assume \$160M of mine cash flow will partly fund the chemical plant.
- Upside opportunities.** PLL is undertaking a by-products study examining mica, feldspar, and quartz, which could add both to project valuation and further cash flow to partly fund the chemical plant. Other opportunities to add value are third party processing of spodumene and increasing resources and mine life.
- We expect first revenues by PLL in FY21e following commissioning of the spodumene mine.** In the interim we forecast losses from FY18e to FY20e based on exploration, corporate, and study expenses.

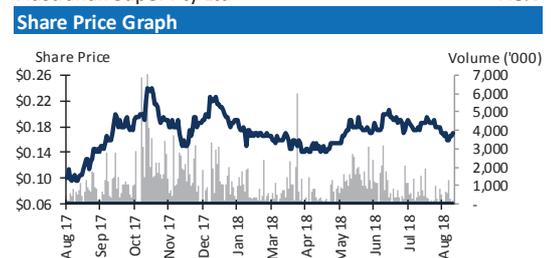
Recommendation:

- We maintain our Speculative Buy on PLL, and increase our 12-month price target (PT) to \$0.34/share (previously \$0.32),** now based on our 1.0x price/risk NPV.
- Catalysts for the share price** include i) Further exploration results; ii) By-products and revised scoping study; iii) Chemical plant and metallurgical work; iv) Submissions for permitting; v) Resource upgrades; v) Reserves and v) PFS.

Recommendation	Speculative Buy			
Previous	Speculative Buy			
Risk	Very High			
Price Target	\$0.34			
Previous	\$0.32			
Valuation	\$0.34			
Methodology	1.0x price/risk NPV			
Share Price (A\$)	\$ 0.165			
ASX Code	PLL			
52 week low - high (A\$)	0.096-0.255			
Capital structure				
Shares on Issue (M)	559			
Market Cap (A\$M)	92			
Net Cash/(Debt) (A\$M)	13			
EV (A\$M)	80			
Options (M)	70			
Performance rights (M)	1			
Fully diluted EV (\$M)	91			
12mth Ave Daily Volume ('000)	1,128			
Estimates y/e Jun	2017e	2018e	2019e	2020e
Sales \$M	0.0	0.0	0.0	0.0
EBITDA \$M	-3.5	-10.8	-12.1	-13.1
NPAT adj \$M	-3.5	-10.6	-12.0	-13.0
EPS adj \$	-0.01	-0.02	-0.02	-0.02

Board	
Ian Middlemas	Non-Executive Chairman
Keith Phillips	Managing Director
Taso Arima	Executive Director
Jorge Beristain	Non-Executive Director
Levi Mochkin	Non-Executive Director
Jeff Armstrong	Non-Executive Director

Substantial shareholders	
NASDAQ Securities Australia Pty Ltd	9.4%
Australian Super Pty Ltd	7.8%



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The analyst does not own PLL securities.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 352,890 PLL shares.

Cranport Pty Ltd owns 788,192 PLL shares.

Refer to disclosures at end of report for details.

Foster Stockbroking acted as Sole Lead Manager to the \$16M placement of 100M PLL shares at \$0.16/share in October 2017. Foster Stockbroking received fees for this service. Foster Stockbroking has also provided corporate advice to PLL.