



Pilbara Minerals Ltd (PLS.ASX)

Plant ramp up continues as eyes turn to Stage 2 FID

Event:

- September quarterly; Commodity price changes; Earnings and PT change.

Investment Highlights:

- Pilbara Minerals' (PLS) September quarterly showed maiden net operating cash flow of \$2.4M, chiefly from its DSO operation, inclusive of \$4.1M interest expense.** Investing cash flow was \$43M, which we estimate to be remnant Stage 1 capex, and pre-production and commissioning concentrator costs.
- Plant run rates of 270tph achieved over a 24 hour period during the quarter, above the design rate of 2Mtpa.** PLS is targeting a consistent 2Mtpa run-rate by end CY2018. We estimate lithia recovery averaged 30% in the 1QFY19, inclusive of commissioning. PLS expects target recovery of 75% by end FY19e.
- We estimate DSO generated \$7M EBIT in the quarter, and is averaging a margin of A\$30/wet tonne over the past two quarters.** Maiden concentrate shipment of 8.8 wkt was shipped post the quarter in October.
- 5Mtpa Stage 2 DFS NPV₁₀ of \$2.2b above our estimate of \$2.0b, mostly due to higher spodumene concentrate production and tantalite credits.** Incremental NPV of Stage 2 over the 2Mtpa Stage 1 DFS is \$1.2b, making the case compelling for a positive FID. JORC Reserves post the Stage 2 DFS increased to 108Mt, potentially adding a further 5 years to mine life, extending it to 23 years.
- Funding sources for Stage 2 are ample,** including existing cash (\$90M end September); prior announced debt/pre-payment facilities pursuant to Stage 2 offtake agreements; Stage 1 and DSO cash flows; BNP working capital facility; Other debt/bond options; and equity. We envisage any equity raising, if any, to be immaterial.
- We recently downgraded our forecast lithium prices, maintaining these in-line with consensus.** LiOH has been cut by 7% to 15% over FY19e-FY22e, and by 2% long-term to US\$13,190/t. Spodumene SC6.0 forecasts are cut 2% to 8% over same period, and long-term by 7% to US\$589/t (prior US\$632/t). In contrast, we upgrade our tantalite prices by 20%-31%, with long-term being US\$71/lb.

Earnings and Valuation:

- We have downgraded our forecast FY19e, FY20e, and FY21e NPAT forecasts by 22%, 29%, and 20% to \$100M, \$127M, and \$161M.** The downgrades are mostly due to cuts in our spodumene price forecasts, as well as higher cash costs.
- Our risked NPV₁₀ DCF of PLS has declined to \$1.04/share (prior \$1.21/share), based on our reduced earnings forecasts.** We believe valuation remains attractive even after assuming lower long-term spodumene pricing, due to the low costs of the Pilgangoora mine.

Recommendation:

- We maintain our Buy recommendation on PLS, reducing our 12-month price target to \$1.04/share, in-line with our 1.0x Price/risked valuation.**
- Catalysts for the share price include:** Achieving steady-state design throughput of concentrator; Achieving design rate lithia recoveries; Higher lithium prices; FID and completion of financing for Stage 2; Resource and Reserves upgrades; Commencement of construction for Stage 2; and studies on joint venture downstream lithium hydroxide refinery.

Disclosures

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 400,000 PLS shares. Refer disclosures at end of report for details.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$1.04			
Previous	\$1.21			
Share Price (A\$)	\$ 0.780			
ASX Code	PLS			
52 week low - high (A\$)	0.675-1.25			
Valuation (A\$/share) - risked	\$1.04			
Methodology	DCF			
Capital structure				
Shares on Issue (M)	1,745			
Market Cap (A\$M)	1,361			
Net Cash/(Debt) (A\$M)	-48			
EV (A\$M)	1,409			
Performance rights	1			
Options (M)	55			
Fully diluted EV (\$M)	1,452			
12mth Ave Daily Volume ('000)	11,988			
Y/e Jun (A\$M)	2018a	2019e	2020e	2021e
Sales	10	277	381	517
EBITDA adj.	-16	130	215	274
NPAT adj.	-20	100	127	161
EPS diluted \$ adj.	-0.01	0.06	0.07	0.09
PER x	nm	14.7	11.6	9.2
EV/EBITDA x	nm	9	5.1	4.2

*Adj = underlying FSB estimate

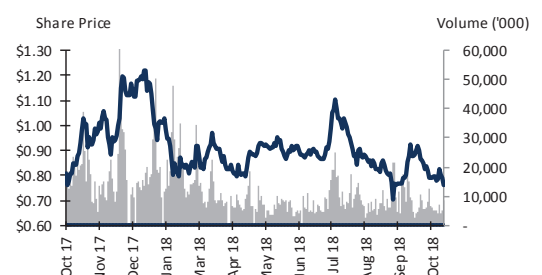
Board

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



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