



Pilbara Minerals Limited (PLS.ASX)

Customers reduce appetite for offtake

Disclosures

The analyst owns 254,462 PLS shares.

Stockbroking and associated entities (excluding Cranport Pty Ltd) own 254,462 PLS shares. Cranport Pty Ltd owns 500,000 PLS shares. Refer end of report for details.

Recommendation

Buy

Previous Buy

Risk High

Price target \$ 0.81

Previous \$1.04

Share Price (A\$) \$ 0.585

ASX Code PLS

52 week low - high (A\$) 0.535-1.125

Valuation (A\$/share) - risked \$0.81

Methodology DCF

Capital structure

Shares on Issue (M) 1,851

Market Cap (A\$M) 1,083

Net Cash/(Debt) (A\$M) -37

EV (A\$M) 1,120

Performance rights 2

Options (M) 21

Fully diluted EV (\$M) 1,132

12mth Ave Daily Volume ('000) 9,704

Y/e Jun (A\$M) 2018a 2019e 2020e 2021e

Sales 11 50 269 291

EBITDA adj. -15 -20 109 116

NPAT adj. -19 -39 70 53

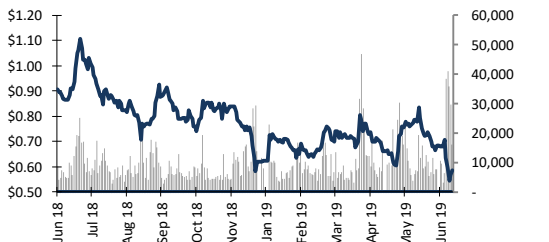
EPS diluted \$ adj. -0.01 -0.02 0.04 0.03

PER x nm nm 15.2 20.0

EV/EBITDA x nm nm 6.3 5.9

*Adj = underlying FSB estimate

Share Price Graph



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Event:

- Pilbara Minerals Ltd (PLS) sales and production update.

Investment Highlights:

- PLS is on track for a record production in June of between 64kt and 68kt vs our forecast of 68kt. However the sting came in its sales update, the company guiding to between 23kt and 45kt, well below that of production.
- PLS cited Ganfeng (GFL) and General Lithium experiencing ramp-up and commissioning delays of downstream processing capacity in China for the reduced offtake appetite. However some foregone sales were provided to other interested strategic customers.
- Despite the disappointing sales update, the company is still working through both its partnering process for Pligangoora and the POSCO JV. PLS cited parties being interested in Stages 1 and 2 offtake in addition to that from Stage 3. The POSCO JV appears more advanced in progress, with both parties having completed due diligence and FID expected during the September quarter.
- We still expect successful outcomes for both the POSCO JV and the partnering process. We anticipate that the Tier 1 nature of the asset – for which Stage 3 output would rival the expanded Greenbushes and Sala del Carmen mines, should attract partners. We estimate the project to be worth \$2.47b based on recent market transactions.
- We have downgraded our forecast spodumene and lithium hydroxide prices in light of the market. We now forecast long-term SC6.0 of US\$551/t (prior US\$584/t) and LiOH of US\$12,035/t (prior \$13,376/t). PLS cited prices received to date in the June quarter were in range of US\$600-640/t, below our forecast of US\$675/t.

Earnings and Valuation:

- We have downgraded our forecast earnings based on both lower lithium prices and shipments, forecasting NPAT of \$70M and \$54M in FY19e and FY20e (prior \$89M and \$130M). PLS had cash of \$103M end March and we estimate it to fall to \$83M end June and reach a trough of \$63M end 3QCY19e. We then forecast cash to increase as sales normalise in-line with nameplate production in 4QCY19e. Our forecasts exclude any sell-down.
- We derive a valuation of \$0.81/share for PLS based on a 50:50 weighting of a 35% Pilgangoora sell-down case and no sell-down.

Recommendation:

- We maintain our Buy recommendation on PLS and reduce our 12-month price target to \$0.81 (prior \$1.04) based on our risked valuation.
- We view project sell-down as major catalyst for share price to re-rate, being 1) NPV accretive; 2) Provide sufficient cash for funding of at least Stages 2 and 3 independent of mine cash flow and debt; 3) Reduce or eliminate risk of shareholder dilution and 4) Expedite project expansions.