

Subject: FW: Pilbara Minerals (PLS): How much cash flow might PLS's newly announced DSO operation generate? Maintain conviction Buy.
Date: Tuesday, 15 November 2016 11:21:07 am Australian Western Standard Time
From: Malcolm Bull
Priority: High



While it is difficult to estimate the potential cash flow from PLS's DSO operation (announced this morning, see email below) given no prices or margins have been provided, we have provided some preliminary estimates below:

- We believe the 6% spodumene price in CY17 is likely to be US\$800-1,000/t (Joe Lowry recently posted an article on LinkedIn saying: Galaxy Resources is "rumoured to achieve US\$800/t spodumene prices" for CY17 offtake)
- If the price of 6% spodumene in CY17 is, say US\$800/t, based on contained lithium, the price of a 1.5% product should be ~US\$200/t
- Adjusting for 75% recoveries, reduces the price to US\$150/t
- What would be a "healthy operation margin"? Say 25-40%? Let's say US\$40-60/t.
- Potential cash flow generation:
 - Margin @ US\$40/t for 100kt/month = US\$4m/month or A\$5.3m/month, or A\$64m p.a., or **A\$96m over the ~18 month contract**
 - Margin @ US\$50/t for 100kt/month = US\$5m/month or A\$6.7m/month, or A\$80m p.a., or **A\$120m over the ~18 month contract**
 - Margin @ US\$60/t for 100kt/month = US\$6m/month or A\$8.0m/month, or A\$96m p.a., or **A\$144m over the ~18 month contract**

What could this mean for PLS?

- For us this was an unexpected and material positive development for PLS
- **If PLS can generate ~A\$30-50m in margin from its DSO operation in 2H CY17, this early cash flow could be used to help fund the development of Pilgangoora**
- PLS is planning to build its A\$224m Pilgangoora project during CY17. We estimate:
 - Funding Need: A\$250m (A\$224m capex + A\$26m in working capital)
 - Funding Sources: A\$250m
 - Existing Cash: A\$94m
 - Offtake Pre-payments: say ~A\$50m (A\$17.75m General Lithium + A\$13m Shandong Ruifu Lithium + say another ~A\$20m from Shandong Ruifu Lithium for spodumene offtake)
 - Project Debt: ~A\$106m (we expect confirmation of deb finance in place within the next few months)
- Clearly any cash flow generation from the DSO operation would reduce the required debt draw down

Pre-market this morning PLS confirmed it has signed an offtake deal with Chinese lithium carbonate producer Shandong Ruifu Lithium:

- **Timing:** To supply crushed but unprocessed Direct Shipping Ore (DSO) **from as early as July 2017.**
- **Volume:** ~100kt/month of 1.5% lithia ore for ~18 months to December 2018, totalling 1.9mt over the contract
- **Price:** A fixed price in US\$/t delivering a healthy operating margin (specific price not disclosed)
- **Upfront Payment:** The agreement also **includes an upfront payment of US\$10m** (A\$13.1m), payable on commencement of major mine construction works

This offtake agreement remains subject to the satisfaction of a number of normal regulatory and other approvals as well as confirmation of port access in Port Hedland.

The company also confirmed Shandong Ruifu Lithium is the other Chinese lithium carbonate producer it is planning to sign a 6% spodumene offtake agreement with. PLS is hoping to finalise this 6% spodumene offtake agreement "shortly".