

26 October 2016 06:00 BST

BUY

Current Share Price	AUD0.495
Target Price	AUC80
Market Capitalisation	AUD685.0m
Shares In Issue	1,291m
RIC/BLBG	PLS.ASX/PLS AU
Avg. Daily Volume (3M)	7,511,896
Net Cash/(Debt) (m) (06/16F)	AUD100.0m

Current share price(s) timed at 4:30pm on 24/10/16

Share Price



Performance (%)	1M	3M	12M
Absolute	5	1	36
Relative	4	-3	27

Source: Datastream (relative to UK-DS Market index)

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Pilbara Minerals

Company Update

ROFR dispute resolved by equity placement

Pilbara has come to an agreement with Mineral Resources on an A\$50m equity placement at A\$0.48/share to resolve their dispute regarding Mineral Resources' ROFR rights on spodumene offtake. Mineral Resources has agreed to relinquish its ROFR and 2.5% royalty, leaving Pilgangoora unencumbered. The effect of the share placement and cancellation of the 2.5% royalty net out in our valuation and we retain our Buy recommendation and A\$0.80/share target price.

- Sale notice dispute resolved:** Mineral Resources (MIN) will be issued A\$50m in the form of ~104.2m PLS shares at an exchange rate of A\$0.48/share. In return, MIN has agreed to dissolve its ROFR rights over the sale of Pilgangoora spodumene and its 2.5% royalty, which would have been incurred should MIN have elected not to exercise its ROFR rights. Court proceedings are immediately discontinued and the dispute resolution process will be closed. It is proposed that the parties will negotiate in good faith to formalise the terms of settlement in the next 10 business days. MIN has agreed that it will not sell its holding (~8% of outstanding PLS shares) within 6 months nor increase its holding within 12 months.
- Mineral Resources becomes a helpful partner in advancing the project:** Mineral Resources has committed its support to Pilbara during the development and operation of Pilbara, including being willing to provide mining and mine related services to Pilbara. In addition, Pilbara and MIN will examine the potential for synergies between MIN's Wodgina tantalum mine and Pilgangoora. MIN is an experienced miner and mining services contractor and currently owns 43.1% of, and operates, the Mt. Marion Lithium Project in Kalgoorlie, WA. MIN transformed the project from a greenfields site to being ready to commence operations. We believe that MIN should be a valuable partner and provider of support to PLS as it progresses the development of Pilgangoora.
- Path now clear for Pilbara to proceed with General Lithium offtake agreement:** We believe that the resolution of this dispute will remove an unwanted distraction and allow PLS to focus on developing Pilgangoora and securing additional offtake partners. It also clears the way for PLS to proceed with the offtake agreement with General Lithium, a leading Chinese producer of lithium carbonate and lithium hydroxide. The agreement is for the supply of 140ktpa (~40% of phase 1 production) of 6% chemical-grade spodumene from Q1 2018 for an initial 6-year period with an option to extend for a further four years. The agreement also includes an MOU to establish a downstream 50/50 JV processing facility to produce a minimum of 20ktpa of lithium carbonate and lithium hydroxide. General Lithium has agreed to invest A\$17.75m in Pilbara at A\$0.50/share with the potential to increase its holding to a maximum of 4.99% in the event of a positive decision to proceed with the downstream JV.
- The net effect of the added shares and cancellation of the royalty is NAVPS neutral in our valuation. We retain our Buy recommendation and A\$0.80/share target price.**

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Figure 1: Pilbara Summary Financials

Pilbara	Ticker	PIL	Market Capitalisation (f.d.)	A\$685m	Financial Year End	June
BUY	Share Price	A\$0.50	Enterprise Value (EV)	A\$585m	Reporting Currency	A\$
A\$0.80	Implied Return	62%	Net Debt (Cash)	-A\$100m	Shares in Issue	1,384m
Valuation						
	Disc Rate	US\$m	US\$/sh	PNAV	A\$/sh	
Pilgangoora	7%	844	0.59	1.0x	A\$0.79	
Cash		71	0.05	1.0x	A\$0.07	
Debt		(0)	(0.00)	1.0x	A\$0.00	
Cash from options		22	0.02	1.0x	A\$0.02	
SG&A and central	7%	(78)	(0.05)	1.0x	-A\$0.07	
Valuation (fd)		858	0.60		A\$0.80	
Current NAV Multiple (Implied)					0.62x	
Valuation						
NAV valuation	Target multiple		1.00x		A\$0.80	
Other data						
Basic shares (m)	1,291.0			12M high:	A\$0.87	
Fully diluted shares (m)	1,384.1			12M low:	A\$0.22	
NUMe Fully funded shares (m)	1,422.1					
Sensitivity Analysis						
Base case Li price forecast					NAVPS (A\$)	0.80
Base case +10%						1.15
Base case -10%						0.78
Spot Li price (US\$60/t 6% Li con)						1.14
News Catalyst (CY)						
DFS Results						
Finance and Offtake						
Construction						
Commissioning						
Commercial Production						
Resource / Reserve						
Reserves (R&R)	69.8 Mt	1.27%	2,184	20.28	\$201	
Resources (M&I&I)	128.6 Mt	1.22%	3,888	39.20	\$113	
Production (100% basis)						
Chem grade spodumene conc price (US\$/t)	550	550	550	550	550	
Production (kt spodumene conc)	-	163	326	374	602	
Production (LCE Eq)	-	-	24	48	56	
C1 cash cost (ex royalties, \$/t conc)*	-	168	212	253	245	
AISC (US\$/t concentrate)	-	221	265	303	295	
*C1=site mining costs						
Spodumene Concentrate Production (tLCE)						
C1 Cash Cost / AISC (\$/t LCE)						
2016F	2017F	2018F	2019F	2020F	2021F	2022F
2016F	2017F	2018F	2019F	2020F	2021F	2022F
Pilgangoora	C1 cost (ex. Royalties)	AISC				
Assumptions						
Spodumene Price (US\$/t technical 6% conc)	550	550	550	550	550	550
Tantalite Price (US\$/t lb)	60	60	60	60	60	60
Exchange Rate (A\$/US\$)	0.77	0.75	0.75	0.83	0.90	
Ratio analysis						
Average shares out (m)	-	-	1,422	1,422	1,422	
Adj. EPS (A\$/sh)	(0.01)	(0.05)	(0.02)	0.02	0.05	
EPS growth (%)	-	-	-	-	230%	
PE (x)	-	-	-	20.8x	9.0x	
CFPS before w/c (A\$/sh)	-	(0.00)	(0.01)	0.02	0.05	
P/CF (x)	-	-	-	22.9x	10.0x	
FCFPS (A\$/sh)	-	(0.04)	(0.09)	(0.05)	0.04	
P/FCFPS	-	-	-	-	12.2x	
FCF yield (%)	-	-	(18%)	(9%)	9%	
FCF margin (%)	-	-	-	(54%)	27%	
EV (A\$m)	(0.5)	-	492.1	546.5	605.9	
EV/EBITDA (x)	-	-	-	12.1x	6.1x	
EBITDA margin (%)	-	-	-	49%	54%	
ROA (%)	(62%)	(54%)	(10%)	12%	26%	
ROE (%)	(101%)	(56%)	(16%)	18%	29%	
ROCE (%)	(98%)	(54%)	(15%)	31%	43%	
Net Debt / EBITDA (x)	-	-	-	0.4x	(0.3x)	
Gearing (Debt/Equity) (x)	0.6x	0.0x	0.5x	0.4x	0.1x	
Interest Cover (x)	-	-	(11.3x)	14.2x	33.8x	
Income statement (A\$m)						
Revenue	0.1	0.0	-	123.1	225.6	
Cost of sales	-	-	-	(36.6)	(82.8)	
D&A	(0.0)	(0.1)	-	(3.0)	(6.2)	
Gross profit	0.1	(0.0)	-	83.5	136.7	
Exploration	-	(10.6)	(11.0)	(8.0)	(2.0)	
Admin expense	(1.0)	(4.7)	(10.2)	(10.2)	(5.0)	
Net interest	(0.2)	(2.2)	(2.0)	(4.0)	(3.4)	
Other	(4.4)	(37.9)	(1.6)	(8.1)	(14.9)	
Tax	0.1	(0.2)	-	(19.3)	(33.4)	
Net income	(5.5)	(55.6)	(24.8)	33.9	78.0	
EBITDA	(5.3)	(53.2)	(22.8)	60.2	121.0	
Cash flow (A\$m)						
Net (loss) income :	(5.5)	(55.6)	(24.8)	33.9	78.0	
Non-cash adjustments	4.0	38.6	-	3.0	6.2	
Working capital movements	(1.8)	3.2	-	-	(23.7)	
Net interest & other	6.5	113.9	152.9	18.7	(9.4)	
Cash flow from operations	(1.5)	(14.6)	(21.2)	41.0	63.8	
PP&E	(0.5)	(4.6)	(107.0)	(109.5)	(5.0)	
Exploration	-	-	-	-	-	
Other	-	-	-	-	-	
Cash flow from investing	(0.5)	(7.6)	(107.0)	(109.5)	(5.0)	
Interest received / (paid)	-	0.7	2.0	4.0	3.4	
Share issue	5.2	122.7	79.8	-	-	
Debt drawn down	1.7	4.0	80.0	-	-	
Debt repaid	-	(0.1)	-	-	(60.0)	
Cash flow from financing	6.9	119.0	156.2	(4.0)	(63.4)	
Forex	-	-	-	-	-	
Net change in cash	-	96.8	28.1	(72.5)	(4.6)	
Cash at end of period	3.2	100.0	128.1	55.6	51.0	
Balance sheet (A\$m)						
Cash	3.2	100.0	128.1	55.6	51.0	
AR	0.9	1.5	1.5	1.5	16.9	
Inventories	1.6	0.0	0.0	0.0	16.9	
PPE	0.1	0.8	107.8	214.2	213.0	
Other	3.0	0.3	0.3	0.3	0.3	
Total assets	8.9	102.7	237.8	271.7	298.0	
AP	0.7	3.0	3.0	3.0	11.3	
Debt	2.6	0.3	80.3	80.3	20.3	
Deferred tax	-	-	-	-	-	
Other	0.0	1.0	1.0	1.0	1.0	
Total liabilities	3.4	4.3	84.3	84.3	32.7	
Shareholders equity	5.4	98.4	153.5	187.4	265.3	
Retained earnings	-	-	-	-	-	
Liabilities + equity	8.9	102.7	237.8	271.7	298.0	

Source: Company & Numis Securities Research

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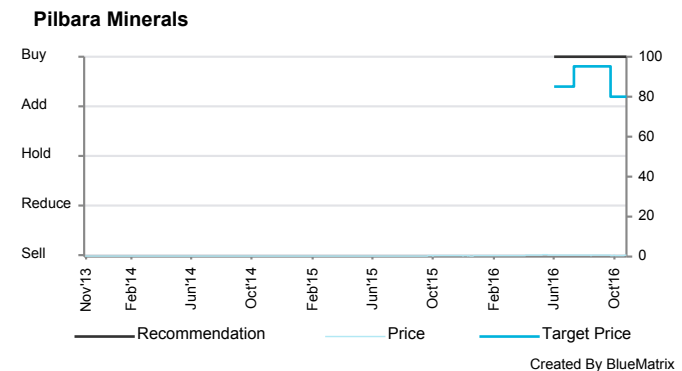
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Three Year - Recommendation, Target Price, Share History



Source: Numis Securities Research

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Add	>= +10% to +19.99%
Hold	0% to +/-9.99%
Reduce	<= -10% to -19.99%
Sell	<= -20%

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