

RECOMMENDATIONS

Rating	BUY ▲
Risk	High
Price Target	\$0.71
Share Price	\$0.50

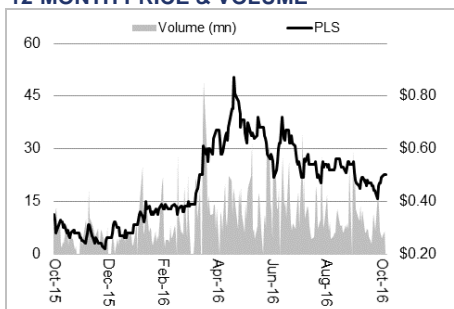
SNAPSHOT

Monthly Turnover	\$80.7mn
Market Cap	\$570mn
Shares Issued	1,151.4mn
52-Week High	\$0.87
52-Week Low	\$0.22
Sector	Materials

BUSINESS DESCRIPTION

Pilbara Minerals is exploring for and developing pegmatites in Western Australia which are prospective for tantalum and lithium. Its main project is the Pilgangoora Spodumene project in the Pilbara which it aims to have in production in early 2018.

12-MONTH PRICE & VOLUME



RESEARCH ANALYST

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Disclosure

The author owns no shares in PLS.

Pilbara Minerals (PLS)

COMPANY REPORT

Shares swapped for royalty and flexibility

- The deal:** PLS is issuing Mineral Resources with 104m shares or around 9% of the issued capital and equivalent to \$50m in order to extinguish MIN's 2.5% royalty and right of first refusal (FROR) on sales from PLS's Pilgangoora development. On our estimates the 2.5% royalty is equivalent to \$7.5-8.0m pa or around \$60m on a pre-tax NPV basis at the 2Mtpa rate.
- The benefit to PLS:** Management of PLS has argued that it would be no worse off financially with the FROR in place as MIN would have to match the price agreed with a third party for spodumene concentrate. The benefits are: 1) PLS no longer has to wait for 45 days for MIN to decide if it wants the concentrate; 2) it has certainty over delivery and can therefore guarantee delivery to a third party; 3) it now has the ability to enter into deliverable forward agreements which will assist in financing the project; 4) it can sell spot; and 5) the net revenue in A\$m terms will be higher. The negative is the earnings and valuation per share dilution which we assess to be 3% and 4% respectively.
- Relationships no longer strained:** The court case and mediation had the potential to divert management's focus away from the development of Pilgangoora. Now that MIN is a shareholder in PLS it may also see some co-operation between the two companies particularly given MIN's interest in setting up a toll processing and logistics facility at Wodgina (which already has a gas fired power station, 300+man camp and a tantalum processing plant). PLS's release indicates that MIN has committed its support during the development and operation of PLS's project including the provision of mining and mine related services.
- Target price and valuation diluted a little:** We have increased our issued capital in PLS for the \$50m issue at \$0.45/share and removed the 2.5% royalty. The impact was to decrease our valuation and target price by 3cps to 71cps. We maintain our BUY recommendation.

INVESTMENT SUMMARY

Year End: 30 June		2015 (A)	2016 (A)	2017 (E)	2018 (E)	2019 (E)
Revenue	\$mn	0	0	0	70	313
EBITDA	\$mn	-5.3	-42.6	-7.8	23.9	168.4
EBIT	\$mn	-5.4	-53.2	-7.8	23.9	152.6
Reported Profit	\$mn	-5.5	-55.6	-10.1	10.2	102.7
Adjusted Profit	\$mn	-5.5	-55.6	-10.1	10.2	102.7
EPS (Reported)	¢	-0.8	-4.8	-0.8	0.8	8.2
EPS (Adjusted)	¢	-0.8	-4.8	-0.8	0.8	8.2
EPS Growth	%	N/A	N/A	N/A	N/A	N/A
PER (Reported)	x	N/A	N/A	N/A	60.6	6.0
PER (Adjusted)	x	N/A	N/A	N/A	60.6	6.0
Dividend	¢	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0	0	0	0	0

Financial summary

Pilbara Minerals

Analyst:	Warren Edney
Date:	26-Oct-16
Share Price (A\$):	\$0.50
Market Cap (A\$m):	\$568
EV (A\$m)	\$469
Year End:	30 June

Rating:	Buy
Price Target:	\$0.71
Upside/(Downside):	43%
Valuation:	\$0.71
Risk:	High

KEY RATIOS	FY15A	FY16A	FY17E	FY18E	FY19E	FY20E
NPAT - Reported	-5.5	-55.6	-10.1	10.2	102.7	96.4
NPAT - Attributable	-5.5	-55.6	-10.1	10.2	102.7	96.4
EPS - Adjusted	-1.0	-1.1	-0.8	0.8	8.2	7.7
EPS Growth (%)		8%	(24%)	(202%)	904%	(6%)
P/E (x)	(50.5)	(46.6)	(61.6)	60.6	6.0	6.4
CFPS (A Cents)		-0.4	-0.8	0.8	9.5	9.0
P/CF (x)		-114.1	-61.6	60.6	5.2	5.5
DPS (A Cents)	-	-	-	-	-	-
Franking (%)	0%	0%	0%	0%	0%	0%
Dividend Yield (%)	-	-	-	-	-	-
Payout Ratio (%)	-	-	-	-	-	-
FCF Yield (%)	0%	-2%	-21%	-8%	21%	20%
EV/EBIT (x)		(21.7)	(148.3)	48.2	7.6	8.3
EV/EBITDA (x)		(27.0)	(148.3)	48.2	6.8	7.4

ASSUMPTIONS	FY15A	FY16A	FY17E	FY18E	FY19E	FY20E
Australian Dollar (AUD/USD)	0.84	0.73	0.76	0.73	0.73	0.73
Spodumene conc (US\$/t)	560	580	650	650	585	535
Spodumene conc (A\$/t)	667	797	861	890	802	732
Li2O (US\$/t)	10,188	10,549	11,818	11,818	10,639	9,722
Tantalite (US\$/t)	39	60	63	68	73	78
Tantalite (A\$/t)	46	82	83	92	99	106

PRODUCTION & COSTS	FY15A	FY16A	FY17E	FY18E	FY19E	FY20E
Pilgangoora						
Spodumene (t)	0	0	0	73	328	336
Tantalite (k lb)	0	0	0	45	303	325
Spodumene - FOB Cost A\$/t	0	0	0	517	403	392
Spodumene - FOB Cost A\$/t after credits	0	0	0	475	336	317
Tabba Tabba						
Tantalite (k lb)	0	0	0	0	206	167
Tantalum - FOB Cost A\$/t	0	0	0	0	54	46

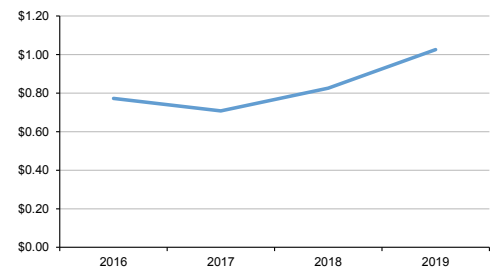
PROFIT & LOSS (A\$M)	FY15A	FY16A	FY17E	FY18E	FY19E	FY20E
Operating Revenue	0	0	0	70	313	298
Other Revenue	0	0	0	0	0	0
Total Revenue	0	0	0	70	313	298
Operating Expenses	0	0	0	-38	-136	-135
Corporate/Other Expenses	-5	-43	-8	-8	-8	-8
EBITDA	-5	-43	-8	24	168	155
Depreciation & Amortisation	0	0	0	0	-16	-16
Exploration/write-offs	0	-11	0	0	0	0
EBIT	-5	-53	-8	24	153	139
Net Interest / (Expense)	0	-2	-2	-6	-6	-1
NPBT	-6	-55	-10	18	147	138
Income Tax Expense	0	0	0	-7	-44	-41
NPAT - Adjusted	-6	-56	-10	10	103	96
Significant Items	0	0	0	0	0	0
NPAT - Reported	-6	-56	-10	10	103	96

CASH FLOW (A\$M)	FY15A	FY16A	FY17E	FY18E	FY19E	FY20E
Cash Flow from Ops	(1)	(5)	(10)	10	119	112
Capex - Development & Sustaining	(0)	(5)	(107)	(54)	-	-
Free Cash Flow	(2)	(10)	(117)	(43)	119	112
Cash Flow From Investing	(3)	(17)	(157)	(54)	-	-
Cash Flow From Financing	7	120	190	-	-	-
Net Cash Flow	2	97	23	(43)	119	112

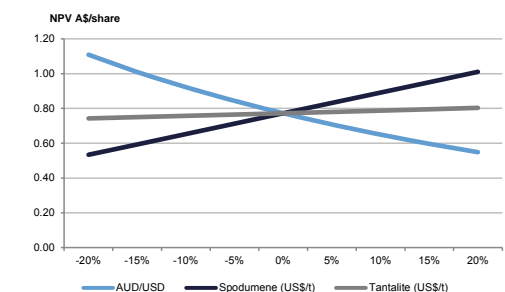
BALANCE SHEET (A\$M)	FY15A	FY16A	FY17E	FY18E	FY19E	FY20E
Cash	3	100	123	80	199	311
PP&E/Development/Exploration	2	1	108	162	146	130
Assets	9	103	233	243	346	442
Debts	3	0	141	141	141	141
Liabilities	3	4	145	145	145	145
Equity	5	98	138	149	251	348
Net Debt / (Cash)	-1	-100	17	61	-58	-170
Gearing (%) - Net Debt / (Net Debt + Equity)		7893%	11%	29%	-30%	-96%

VALUATION SUMMARY	WACC	9.1%	A\$m	A\$ps
Pilgangoora			791	0.63
Tabba Tabba			10	0.01
Projects			801	0.64
Corporate			(14)	(0.01)
Exploration			-	-
Net Cash / (Debt)			100	0.08
Total Valuation			887	0.71

VALUATION OVER TIME (A\$ps)



VALUATION SENSITIVITY



EARNINGS SENSITIVITY

AUD/USD	FY16A	FY17E	FY18E	FY19E
Base NPAT A\$m	-55.6	-10.1	10.2	102.7
10%	0.0	0.0	-4.2	-18.4
+1c	0.0	0.0	-0.6	-2.5
Spodumene	FY16A	FY17E	FY18E	FY19E
Base NPAT A\$m	-55.6	-10.1	10.2	102.7
10%	0.0	0.0	4.3	17.0
\$10/t	0.0	0.0	0.7	2.9

PRODUCTION AND COSTS

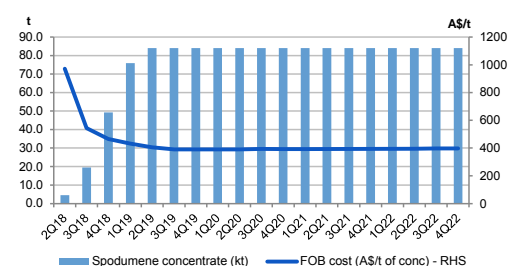
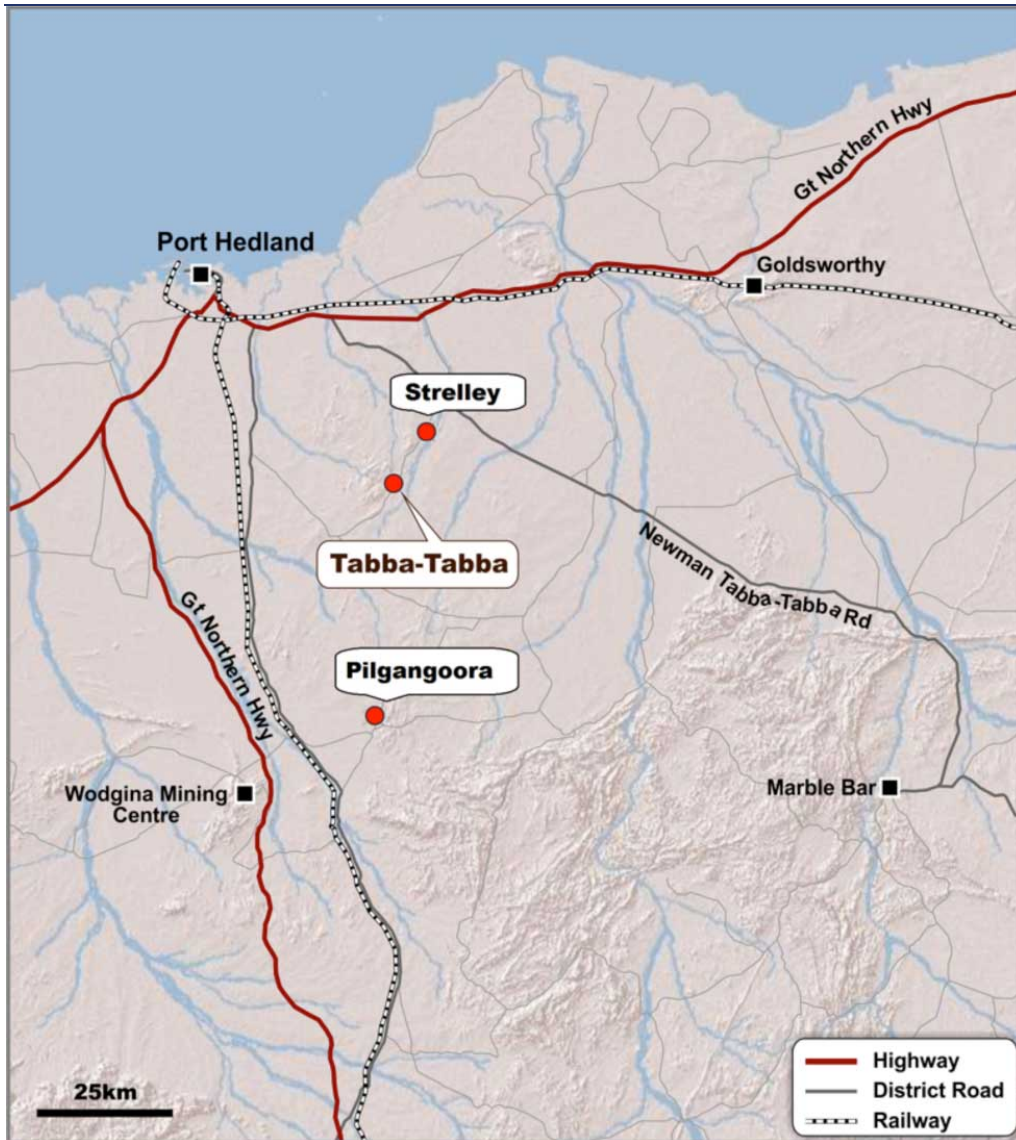


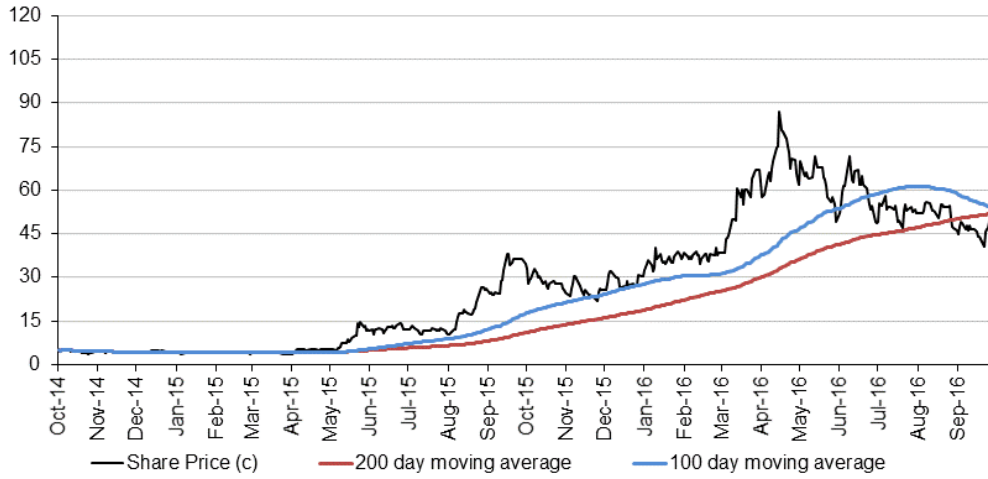
FIG.1: LOCATION MAP



Source: PLS

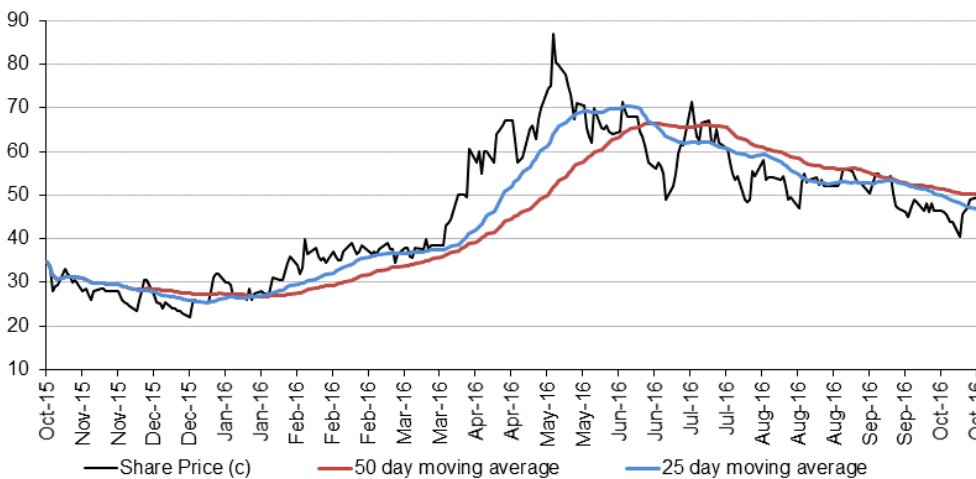
Appendix

FIG.2: LONG TERM MOMENTUM INDICATORS



Source: Iress

FIG.3: SHORT TERM MOMENTUM INDICATORS



Source: Iress

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Buy: The stock's total return is expected to increase by at least 10-15 percent from the current share price over the next 12 months.

Hold: The stock's total return is expected to trade within a range of $\pm 10-15$ percent from the current share price over the next 12 months.

Sell: The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

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