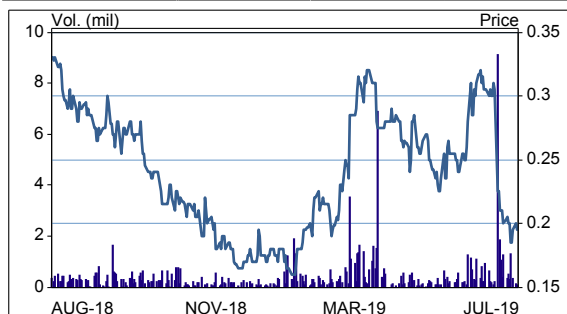


Peninsula Energy Limited (PEN-AU)
Rating: Buy

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Continued ISR Transformation at Lance; Ongoing Revenue From Long-Term Contracts; Section 232 Potential; Reiterate Buy

Stock Data		07/30/2019		
Price		A\$0.20		
Exchange		ASX		
Price Target		A\$0.90		
52-Week High		A\$0.34		
52-Week Low		A\$0.15		
Enterprise Value (M)		A\$56		
Market Cap (M)		A\$50		
Shares Outstanding (M)		249.7		
3 Month Avg Volume		533,444		
Balance Sheet Metrics				
Cash (M)		A\$9.60		
Total Debt (M)		A\$15.40		
Total Cash/Share		A\$0.04		
EPS Diluted				
Full Year - Jun		2018A	2019E	2020E
FY		0.18	(0.02)	0.04
Revenue (\$M)				
Full Year - Jun		2018A	2019E	2020E
FY		12.1	43.2	60.0



Transformation initiative at Lance continues. On July 30, 2019, Peninsula released its June 2019 quarterly activities report. The firm has continued to hit various milestones in its transition to low pH (acid leach) ISR facilities, amid idling of its alkaline operations, which recovered 8,491 pounds (lbs) of U_3O_8 in 4Q19. We highlight that global uranium operations utilizing ISR facilities typically sit within the first quartile of the cost curve. During 4Q19, the Wyoming Department of Environmental Quality (WDEQ) completed its review of the low pH Source Material License (SML) and prepared a pre-decision State Decision Document for public review. This document supported the issuance of a previously requested amendment, which would allow for low pH operations at Lance. Notably, the public comment period for the State Decision Document closed on June 17, 2019, void of any comment submissions. Following the comment period, the WDEQ is expected to deliver a final decision on the proposed SML amendment, which should be announced within 30 days following the end of the public comment period. Peninsula management plans on having amendments to all existing operating permits and licenses that were granted during 3Q19.

Long-term contracts continue to provide substantial earnings stream. On April 1, 2019, Peninsula contracted the delivery of 106,000lbs of U_3O_8 at an average cash price of \$34.43/lb, which remains well above current spot prices. Despite a seemingly lower cash price for the early April delivery, the average price for the remainder of the calendar year is expected to be just under \$40/lb. Overall sales proceeds from the April delivery were approximately \$3.65M, as 65,000lbs of the shipment was purchased from the open market at \$22/lb, with the remaining 41,000lbs fulfilled from production at Lance. We expect the substantial profit margins to continue as the firm's next contract delivery is 75,000lbs at prices in the mid-\$40s per pound.

U_3O_8 contracts provide additional flexibility during ramp-up of low pH operations. The company has modified certain contracts in order to allow for significant portions of committed deliveries in CY19 and CY20 to be sourced from either production or market purchases. Additionally, no price variation is included, thereby allowing Peninsula to minimize dependency on production from Lance. In short, we anticipate this optionality to continue providing additional breathing room as the firm has contracted the purchase of 225,000lbs of U_3O_8 at an average fixed price of \$23.69/lb to be received in CY19 and CY20.

Market uncertainty from Section 232 investigation diminished. On July 12, 2019, President Trump decided not to move forward with Section 232 tariffs or sanctions. However, the President established the United States Nuclear Fuel Working Group in order to better analyze the impact of implementing purchase quotas for domestically produced uranium on the entire uranium supply chain. A final decision on the matter is still on-going, and the group now has 90 days to issue a report to the President. Further detail into the decision and our expectations can be found in our July 16, 2019, note titled, "[*Company Update as Section 232 Decision Extended 90 Days; Trump Creates Working Group for Further Analysis; Reiterate Buy.*](#)"



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We reiterate our Buy recommendation and our price target of A\$0.90 per share. Our valuation is based on a DCF of operations at the Lance Projects, utilizing a 10% discount rate. We use an average uranium sales price of \$50/lb in FY19 and beyond, which is in-line with the firm's long-term contractual sales commitments. Despite the less favorable Section 232 decision, which we had not anticipated, we continue to consider Peninsula an attractive way to participate in the domestic uranium space. In conclusion, we view the recent stock price decline as a favorable entry point for investors.

Risks. (1) Financing risk; (2) uranium price risk; (3) operating and technical risk; (4) political risk.

	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
(000s US\$)								
Revenue	35,000	35,000	40,000	60,000	75,000	100,000	100,000	100,000
Total operating costs	18,700	18,700	20,300	25,500	30,000	37,500	37,500	37,500
Corporate costs	7,000	7,000	7,000	8,000	8,000	8,000	8,000	8,000
Operating income	3,000	3,000	6,000	18,200	27,500	43,000	43,000	43,000
EBITDA	15,000	18,000	21,000	33,200	42,500	58,000	58,000	58,000
Taxes	-	-	-	960	3,750	8,400	8,400	8,400
EPS	(\$0.04)	(\$0.05)	(\$0.04)	\$0.01	\$0.04	\$0.08	\$0.08	\$0.08
Cash Flow	(11,000)	(1,818)	13,223	21,187	25,613	32,909	29,917	27,197
Total capital costs	26,000	20,000	83,000	5,000	5,000	5,000	5,000	5,000
NPV @ 10%	\$184,430							
NAV / share (A\$)	\$0.90							

Source: H.C.W. estimates and company reports.

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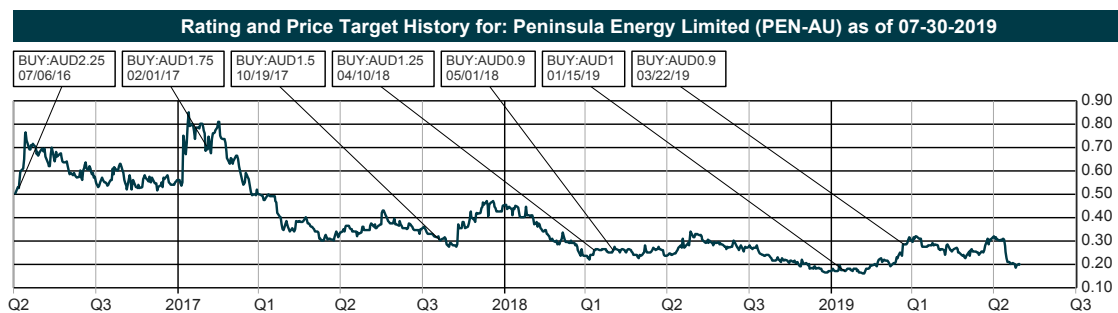
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Market Outperform (Buy): The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector.

Market Perform (Neutral): The common stock of the company is expected to mimic the performance of a passive index comprised of all the common stock of companies within the same sector.

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Distribution of Ratings Table as of July 30, 2019

Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	345	92.99%	126	36.52%
Neutral	24	6.47%	3	12.50%
Sell	0	0.00%	0	0.00%
Under Review	2	0.54%	0	0.00%
Total	371	100%	129	34.77%

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