

# Peninsula Energy Ltd.

(PEN-ASX: A\$0.83)

March 11, 2016

**BUY, Speculative Risk**

Dundee target: A\$1.80

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## Fifth Contract Provides Revenue Security, De-risks Expansion Plans

PEN-AU	New	Last
Rating	--	Buy
Target	--	1.80
Risk	--	Speculative
Projected Return	--	117%
Target/NAV multiple	--	0.90x
Corporate DCF	--	1.87
Cash & Investments	--	0.03
Debt	--	-0.01
Exploration & Unmodelled Resources	--	0.09
Total NAV	--	1.97
P/NAV	--	0.42x

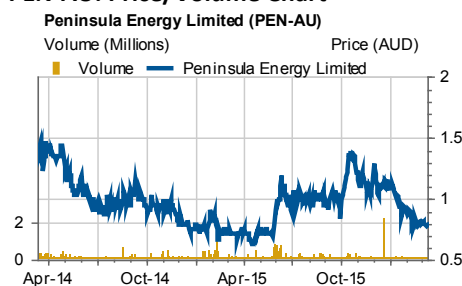
Company Data		
Last Price		A\$ 0.83
52-week Range	A\$ 0.64 -	A\$ 1.45
Market Cap (\$MM)		A\$ 141
Enterprise Value (\$MM)		A\$ 137
Shares Outstanding - Basic (MM)		176.4
Shares Outstanding - FD (MM)		243.8
Avg Volume - 100d (000 shares/day)		98.0
Cash (Dec-15) (\$MM)		A\$ 6.31
Debt (Dec-15) (\$MM)		A\$ 2.03
Working Capital (est) (\$MM)		A\$ 3.11

Forecast	2015A	2016E	2017E	LT
Spot (US\$/lb)	35	45	61	65
Term (US\$/lb)	47	55	65	65
Realized Prices (US\$/lb)	0	56	57	
Revenue (\$MM)	0.3	11.9	48.0	
EPS	(\$0.00)	(\$0.12)	\$0.10	
P/E	n/a	n/a	n/a	
EBITDA (\$MM)	(\$5.1)	(\$20.7)	\$26.7	
EV/EBITDA	n/a	n/a	5.1x	
OP CF (\$MM)	(\$4.9)	(\$20.7)	\$18.7	
Capex (\$MM)	(\$16.4)	(\$16.8)	(\$10.1)	
FCF (\$MM)	(\$21.3)	(\$37.5)	\$8.6	
FCF Yield	n/a	n/a	6%	

All Figures in A\$ Unless Otherwise Noted

Source: FactSet, Company Reports, DCM

### PEN-AU: Price/Volume Chart



Source: Factset

### Company Description

Peninsula Energy is an emerging ASX listed uranium developer with assets in Wyoming (USA), and Karoo, South Africa. The company is primarily focused on its 100% owned Lance ISR project, which recently initiated production and delivered its first uranium to customers.

We continue to recommend Peninsula as a BUY, Spec. Risk, and maintain our target at A\$1.80/sh based on a 0.9x multiple applied to our 10% DCF model. An exceptional production growth profile in the US makes PEN one of our top uranium defensive picks - assuming ramp up goes well. A fifth uranium sales contract was arranged with an unnamed major European utility. This should provide additional security to future revenue and potentially de-risks expansion plans. Although pricing and annual sales volume details weren't provided, management suggests this contract could allow completion of the ISR plant (capacity of 3 MM lbs pa), allowing for Stage 2 and Stage 3 production levels. This would eliminate the need for toll milling and allow eventual mining of the Kendrick deposits (license application recently received by NRC). Peninsula's scalable production strategy stipulates Stage 1 production of ~0.6 to 0.8 MM lbs by FY2017, Stage 2 production of 1.2 MM lbs by 2019, and Stage 3 production of 2.3 MM lbs after 2020-2021. We estimate this new contract could cover almost half of Stage 3 production. By this time, PEN may become the largest ISR producer in the US.

**New contract could more than replace initial four contracts.** Terms provided are 4 MM lbs over 10 year period, beginning end of 2020, and also includes option to increase to 50% annual production from 2026 onwards. We estimate initial four contracts total 0.53 MM lbs pa over an average of 7.5 years, covering 66% to 88% of Stage 1 production at a weighted average price of ~\$53.54/lb, ignoring escalation. Timing is not provided, thus we estimate based on publically available data. This new contract could lock up an additional 0.4 MM lbs pa, bringing sales coverage to ~1MM lbs for 2020 through to 2023, potentially covering ~82% of Stage 2 production and ~43% of Stage 3 production. Furthermore, the option to increase to 50% of mine production from 2026 onwards could guarantee sales for ~1.15 MM lbs of the 2.3 MM lbs Stage 3 rate.

**Risk remains largely related to execution.** Though the first uranium delivery was announced in January, we still await an initial production announcement. We also look forward to the finalization of the pending NYSE listing which should improve liquidity and access to capital, as well as a potential re-rating.

**Peninsula remains an attractive investment.** A suite of cornerstone investors (JP Morgan, Blackrock, Pala, RCF), numerous high-priced off-takes with nuclear utilities, production scalability, and a significant South Africa resource make PEN a top defensive pick of ours in this low U-price environment. A healthy market cap advantage and slight premium valuation to peers suggest it also has the ability to become a net acquirer of ISR projects, particularly in this weak uranium and junior resource equity market. PEN trades at 2017E EV/EBITDA of 3.9x vs. peers at 6.6x; P/NAV of 0.42x vs 0.40x. We expect a re-rating as ramp-up at Lance proceeds.

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<b>Peninsula Energy Ltd.</b>					
Rating	BUY	A\$ Target	\$1.80	Shares O/S (MM)	176.4
Risk*	Speculative	A\$ Close	\$0.83	Fully Diluted Shares (MM)	243.8
David A. Talbot, VP, Sr. Mining Analyst		12-month return	117%	Basic Mkt. Capitalization (\$MM)	A\$ 141.14
d.talbot@dundeecapitalmarkets.com				Enterprise Value (\$MM)	A\$ 136.86

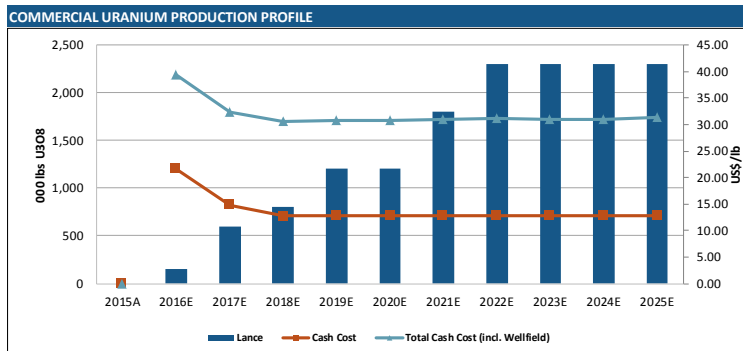
<b>PRODUCTION ESTIMATES (000 lbs)</b>					
Year-end June	2015A	2016E	2017E	2018E	2019E
Lance	0	150	600	800	1,200
<b>TOTAL</b>	<b>0</b>	<b>150</b>	<b>600</b>	<b>800</b>	<b>1,200</b>

<b>TOTAL CASH COST ESTIMATES (excl. non-cash, incl. wellfield expenditures) (US\$/lb)</b>					
Year-end June	2015A	2016E	2017E	2018E	2019E
Lance	0.0	39.3	32.4	30.6	30.9
<b>Wt. Avg. Total Cash Costs</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>39.3</b>	<b>32.4</b>

<b>URANIUM RESERVES &amp; RESOURCES</b>					
	Ownership	Tonnes MM t	Grade % U3O8	Cont U3O8 (MM lbs) 100% Basis	PEN Share
<b>Proven and Probable Reserves</b>					
Ross	100%	--	--	--	--
Kendrick	100%	--	--	--	--
Barber	100%	--	--	--	--
Karoo	74%	--	--	--	--
<b>Total Reserves</b>		<b>0.00</b>	<b>0.00%</b>	<b>0.00</b>	<b>0.00</b>
<b>Measured and Indicated Resources</b>					
Ross	100%	8.65	0.05%	9.93	9.93
Kendrick	100%	4.39	0.05%	4.82	4.82
Barber	100%	2.64	0.04%	2.41	2.41
Karoo	74%	8.00	0.12%	21.90	16.21
<b>Total Measured and Indicated Resources</b>		<b>23.68</b>	<b>0.07%</b>	<b>39.06</b>	<b>33.37</b>
<b>Inferred Resources</b>					
Ross	100%	1.15	0.05%	1.25	1.25
Kendrick	100%	23.83	0.05%	24.80	24.80
Barber	100%	10.50	0.05%	10.46	10.46
Karoo	74%	15.30	0.10%	35.00	25.90
<b>Total Inferred Resources</b>		<b>50.78</b>	<b>0.06%</b>	<b>71.51</b>	<b>62.41</b>
<b>TOTAL RESOURCES</b>		<b>74.45</b>	<b>0.07%</b>	<b>110.57</b>	<b>95.78</b>
<b>Current Per Pound Metrics</b>					
EV/lb (US\$)		\$1.07	1.93	-45%	
Mkt Cap/lb (US\$)		\$1.11	1.55	-29%	

<b>NET ASSET VALUE (A\$) - 10%</b>				NAV (\$ MM)	/Share	% NAV
<b>Assets:</b>						
Lance (100%)			248.3	1.43		73%
Un-mined Resources			15.4	0.09		5%
<b>Balance Sheet &amp; Other Items:</b>						
Cash & Investments			4.4	0.03		1%
Debt			(2.0)	(0.01)		-1%
Exploration, G&A, and Other			74.8	0.43		22%
<b>Total</b>			<b>341</b>	<b>1.97</b>		<b>100%</b>
<b>Dundee DCF Target Multiple</b>				<b>0.90x</b>		
<b>Share Price Target</b>			<b>A\$ 1.80</b>			

<b>Long Term Uranium Price Assumption (US\$/lb)</b>					
NAV (C\$/share)	40	50	60	70	80
0% Discount	1.24	2.45	3.66	4.87	6.07
5% Discount	0.87	1.69	2.50	3.31	4.13
10% Discount	0.67	1.24	1.81	2.38	2.95
15% Discount	0.55	0.97	1.38	1.80	2.22



<b>BALANCE SHEET (A\$ MM)</b>				
Year-end June	2015A	2016E	2017E	2018E
<b>Assets:</b>				
Cash & ST Investments	35.56	4.43	12.93	15.70
Other Current Assets	0.84	0.84	0.84	0.84
<b>Current Assets</b>	<b>36.40</b>	<b>5.26</b>	<b>13.76</b>	<b>16.53</b>
Mineral Properties	17.17	33.95	44.07	102.07
Other non-current Assets	131.68	131.68	131.68	131.68
<b>Total Assets</b>	<b>185.25</b>	<b>170.89</b>	<b>189.51</b>	<b>250.29</b>
<b>Liabilities:</b>				
Current Liabilities	4.04	4.04	6.07	4.04
Long-term Debt	0.00	2.03	0.00	0.00
Other non-current Liabilities	2.16	4.00	4.00	4.00
<b>Total Liabilities</b>	<b>6.19</b>	<b>10.07</b>	<b>10.07</b>	<b>8.04</b>
Capital Stock	237.18	239.02	239.02	276.02
Retained Earnings	(58.1)	(78.2)	(59.6)	(33.8)
<b>Total Shareholder Equity</b>	<b>179.05</b>	<b>160.82</b>	<b>179.44</b>	<b>242.25</b>

<b>INCOME STATEMENT (A\$ MM)</b>				
Year-end June	2015A	2016E	2017E	2018E
Total Revenue:	0.3	11.9	48.0	62.2
% Uranium	0%	100%	100%	100%
% Other	100%	0%	0%	0%
Operating Costs	0.0	4.5	12.4	13.7
G&A	3.8	5.1	4.0	4.0
Exploration	0.0	0.6	0.0	0.0
Depreciation	0.2	0.1	1.0	1.5
Other	1.5	22.3	4.8	6.2
<b>EBITDA</b>	<b>(5.1)</b>	<b>(20.7)</b>	<b>26.7</b>	<b>38.3</b>
<b>EBIT</b>	<b>(5.3)</b>	<b>(20.8)</b>	<b>25.7</b>	<b>36.9</b>
Interest Expense	(0.0)	(0.0)	(0.0)	(0.0)
<b>EBT</b>	<b>(5.3)</b>	<b>(20.8)</b>	<b>25.7</b>	<b>36.9</b>
Taxes	0.0	0.0	(8.0)	(11.1)
Equity Earnings	0.0	0.0	0.0	0.0
Other	0	0	0	0
<b>Net Income (Reported)</b>	<b>(5.3)</b>	<b>(20.8)</b>	<b>17.7</b>	<b>25.8</b>
<b>Net Income (Adjusted)</b>	<b>(5.3)</b>	<b>(20.8)</b>	<b>17.7</b>	<b>25.8</b>
<b>EPS (Reported) \$/sh</b>	<b>(0.00)</b>	<b>(0.12)</b>	<b>0.10</b>	<b>0.12</b>
<b>EPS (Adjusted) \$/sh</b>	<b>(0.00)</b>	<b>(0.12)</b>	<b>0.10</b>	<b>0.12</b>
Average Shares (MM)	5,198.7	172.7	173.1	206.6

<b>CASH FLOW STATEMENT (A\$ MM)</b>				
Year-end June	2015A	2016E	2017E	2018E
Net Income (Reported)	(5.3)	(20.8)	17.7	25.8
Depreciation	(0.2)	(0.1)	(1.0)	(1.5)
Working Capital Changes	0.0	0.0	0.0	0.0
Other	0.7	0.3	2.0	2.9
<b>Operating Cash Flow</b>	<b>(4.9)</b>	<b>(20.7)</b>	<b>18.7</b>	<b>27.3</b>
<b>Operating Cash Flow/sh (\$/sh)</b>	<b>0.00</b>	<b>-0.12</b>	<b>0.11</b>	<b>0.13</b>
Capital Expenditures	(16.4)	(16.8)	(10.1)	(59.5)
Acquisitions	0.0	(0.0)	0.0	0.0
Other	(5.6)	0.5	0.0	0.0
<b>Investing Cash Flow</b>	<b>(22.0)</b>	<b>(16.4)</b>	<b>(10.1)</b>	<b>(59.5)</b>
Common Share Dividends	0.0	0.0	0.0	0.0
Equity Financing	69.4	1.8	0.0	37.0
Debt Issue	0.0	2.0	0.0	0.0
Debt Repayment	(12.5)	0.0	0.0	(2.0)
Other	(17.6)	(0.2)	0.0	0.0
<b>Financing Cash Flow</b>	<b>39.3</b>	<b>3.7</b>	<b>0.0</b>	<b>35.0</b>
<b>Net Change in Cash</b>	<b>15.5</b>	<b>(31.8)</b>	<b>8.6</b>	<b>2.8</b>
<b>Cash Balance</b>	<b>35.6</b>	<b>4.4</b>	<b>12.9</b>	<b>15.7</b>
<b>Free Cash Flow</b>	<b>(21.3)</b>	<b>(37.5)</b>	<b>8.6</b>	<b>(32.2)</b>

<b>VALUATION DATA</b>				
Year-end June	2015A	2016E	2017E	2018E
P/E	--	--	0.04x	0.03x
P/CF	--	--	7.67x	6.29x
EV/EBITDA	--	--	5.12x	3.57x
FCF Yield	--	--	6.11%	--

<b>INPUT PRICES</b>				
	2015A	2016E	2017E	2018E
Dundee Spot Uranium (US\$/lb)	35	45	61	65
Uranium Realized Price (US\$/lb)	0	56	57	58
Exchange (US\$/A\$)	0.92	0.71	0.71	0.75

Source: Company Reports, FactSet, Dundee Capital Markets

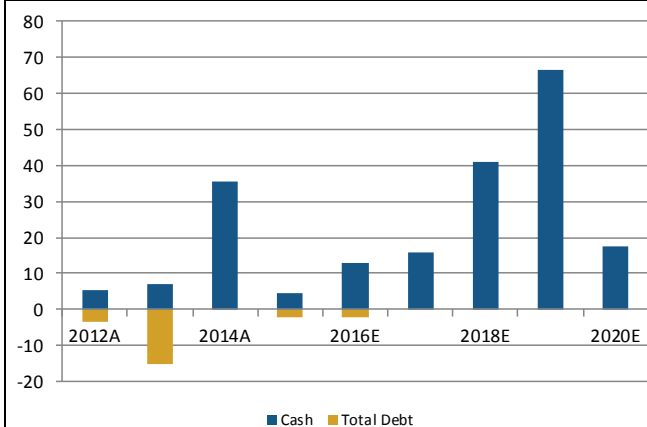
## Peninsula Energy Ltd.

### Net Asset Valuation at Dundee Price Deck (US\$)

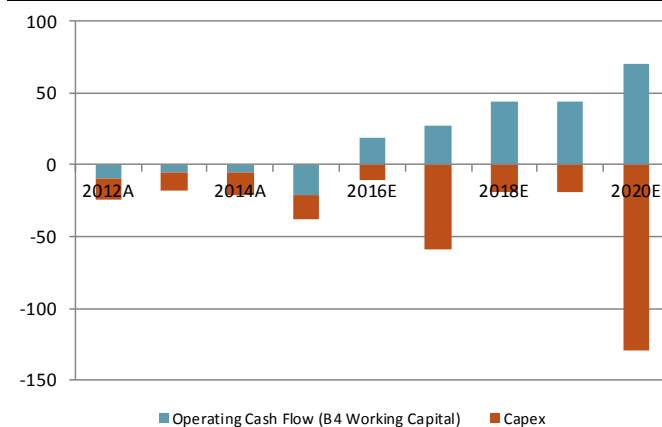
	Target Setting NAV			NAV at Various Discount Rates					
	Discount Rate	(\$MM)	(\$/Share)	0%		5%		15%	
				(\$MM)	(\$/Share)	(\$MM)	(\$/Share)	(\$MM)	(\$/Share)
<b>Uranium Assets</b>									
Lance (100%)	10%	248	1.43	598	3.46	379	2.19	168	0.97
<b>Total Uranium Assets</b>		<b>248</b>	<b>1.43</b>	<b>598</b>	<b>3.46</b>	<b>379</b>	<b>2.19</b>	<b>168</b>	<b>0.97</b>
<b>Other Assets &amp; Expenses</b>									
Cash		4	0.03	4	0.03	4	0.03	4	0.03
Debt		(2)	(0.01)	(2)	(0.01)	(2)	(0.01)	(2)	(0.01)
Resources		15	0.09	15	0.09	15	0.09	15	0.09
Exploration, G&A, Other	10%	75	0.43	109	0.63	88	0.51	65	0.38
<b>Net Other Assets</b>		<b>93</b>	<b>0.53</b>	<b>127</b>	<b>0.73</b>	<b>106</b>	<b>0.61</b>	<b>83</b>	<b>0.48</b>
<b>Net Asset Value</b>		<b>341</b>	<b>1.97</b>	<b>725</b>	<b>4.19</b>	<b>485</b>	<b>2.80</b>	<b>251</b>	<b>1.45</b>
<b>Share Price</b>			<b>0.83</b>		<b>0.83</b>		<b>0.83</b>		<b>0.83</b>
<b>P/NAV</b>			<b>0.42x</b>		<b>0.20x</b>		<b>0.30x</b>		<b>0.57x</b>

### Financial Forecasts at Dundee Price Deck (MM A\$)

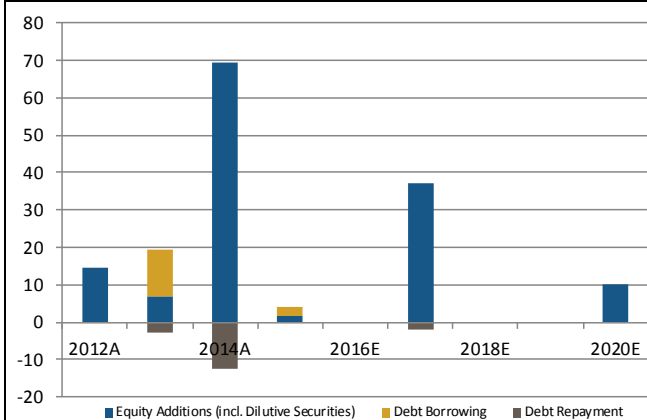
#### Cash and Debt



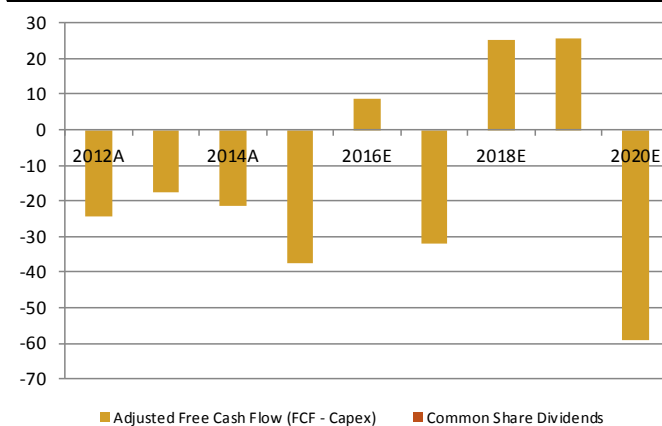
#### Operating Cash Flow and Capital Spending



#### Changes in Debt and Equity



#### Free Cash Flow and Common Share Dividends



Source: Company Reports, FactSet, Dundee Capital Markets

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#### **Explanation of Recommendations and Risk Ratings**

**Dundee target:** represents the price target as required under IIROC Rule 3400. Valuation methodologies used in determining the price target(s) for the issuer(s) mentioned in this research report are contained in current and/or prior research. Dundee target N/A: a price target and/or NAV is not available if the analyst deems there are limited financial metrics upon which to base a reasonable valuation.

**Recommendations:** BUY: Total returns expected to be materially better than the overall market with higher return expectations needed for more risky securities. NEUTRAL: Total returns expected to be in line with the overall market. SELL: Total returns expected to be materially lower than the overall market. TENDER: The analyst recommends tendering shares to a formal tender offer. UNDER REVIEW: The analyst will place the rating and/or target price Under Review when there is a significant material event with further information pending; and/or when the analyst determines it is necessary to await adequate information that could potentially lead to a re-evaluation of the rating, target price or forecast; and/or when coverage of a particular security is transferred from one analyst to another to give the new analyst time to reconfirm the rating, target price or forecast.

**Risk Ratings:** risk assessment is defined as Medium, High, Speculative or Venture. Medium: securities with reasonable liquidity and volatility similar to the market. High: securities with poor liquidity or high volatility. Speculative: where the company's business and/or financial risk is high and is difficult to value. Venture: an early stage company where the business and/or financial risk is high, and there are limited financial metrics upon which to base a reasonable valuation.

Investors should not deem the risk ratings to be a comprehensive account of all of the risks of a security. Investors are directed to read Dundee Capital Markets Research reports that contain a discussion of risks which is not meant to be a comprehensive account of all the risks. Investors are directed to read issuer filings which contain a discussion of risk factors specific to the company's business.

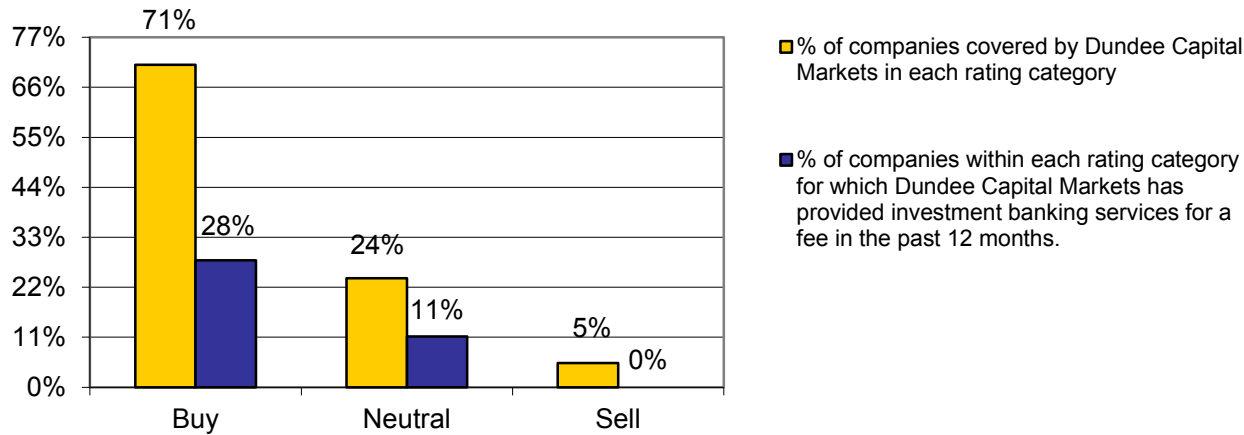
**Medium and High Risk Ratings Methodology:** Medium and High risk ratings are derived using a predetermined methodology based on liquidity and volatility. Analysts will have the discretion to raise but not lower the risk rating if it is deemed a higher risk rating is warranted. Risk in relation to forecasted price volatility is only one method of assessing the risk of a security and actual risk ratings could differ.

Securities with poor liquidity or high volatility are considered to be High risk. Liquidity and volatility are measured using the following methodology: a) Price Test: All securities with a price  $\leq$  \$3.00 per share are considered high risk for the purpose of this test. b) Liquidity Test: This is a two-tiered calculation that looks at the market capitalization and trading volumes of a company. Smaller capitalization stocks ( $<$ \$300MM) are assumed to have less liquidity, and are, therefore, more subject to

price volatility. In order to avoid discriminating against smaller cap equities that have higher trading volumes, the risk rating will consider 12 month average trading volumes and if a company has traded >70% of its total shares outstanding it will be considered a liquid stock for the purpose of this test. c) Volatility Test: In this two step process, a stock’s volatility and beta are compared against the diversified equity benchmark. Canadian equities are compared against the TSX while U.S. equities are compared against the S&P 500. Generally, if the volatility of a stock is 20% greater than its benchmark and the beta of the stock is higher than its sector beta, then the security will be considered a high risk security. Otherwise, the security will be deemed to be a medium risk security. Periodically, the equity risk ratings will be compared to downside risk metrics such as Value at Risk and Semi-Variance and appropriate adjustments may be made. All models used for assessing risk incorporate some element of subjectivity.

**SECURITY ABBREVIATIONS:** NVS (non-voting shares); RVS (restricted voting shares); RS (restricted shares); SVS (subordinate voting shares).

**Dundee Capital Markets Equity Research Ratings**



As at December 31, 2015

Source: Dundee Capital Markets