

**Peninsula Energy Limited (PEN-AU)**  
**Rating: Buy**

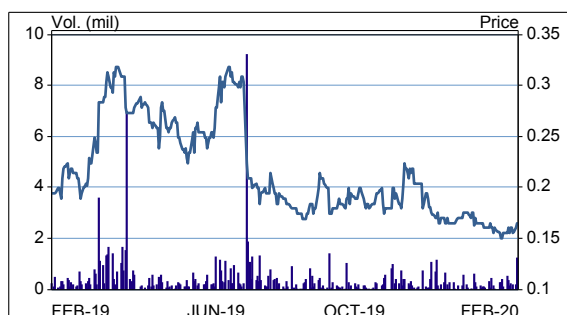
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**Section 232 Progress Amid Proposed FY21 Budget; Continued Focus on Low pH Development; Reiterate Buy; PT Lower**

Stock Data		02/11/2020		
Price		A\$0.17		
Exchange		ASX		
Price Target		A\$0.40		
52-Week High		A\$0.33		
52-Week Low		A\$0.15		
Enterprise Value (M)		A\$61		
Market Cap (M)		A\$49		
Shares Outstanding (M)		295.6		
3 Month Avg Volume		253,959		
Balance Sheet Metrics				
Cash (M)		A\$13.10		
Total Debt (M)		A\$25.30		
Total Cash/Share		A\$0.04		
EPS Diluted				
Full Year - Jun		2019A	2020E	2021E
FY		(0.18)	(0.04)	(0.04)
Revenue (\$M)				
Full Year - Jun		2019A	2020E	2021E
FY		6.6	0.0	0.0

EPS quoted as cents per share.



**Large-scale purchases of domestic uranium in proposed FY21 budget.** On February 10, 2020, President Donald Trump submitted his proposed FY21 budget. The budget proposal included \$150M per year over 10 years that is anticipated to be used for purchases of domestically produced uranium ( $U_3O_8$ ). The President wants to create a federal  $U_3O_8$  reserve that is expected to shield the country against any future market disruptions. In short, we believe that this proposal displays the Government's support for the U.S. nuclear fuel cycle. We highlight that this budget still requires Congressional approval but nonetheless provides some of the first official details from Mr. Trump's thoughts since July 12, 2019 as the Section 232 investigation remains ongoing.

**Focus shifts to low pH transition.** In July 2019, Peninsula elected to idle its alkaline-based production activities at the Lance Projects in Wyoming in order to focus on the next phase of low pH development. At present the management team of the firm continues to evaluate further engineering and design modifications to optimize its future operations. We note that a new low pH field demonstration is currently progressing within a non-producing region located along the southern edge of Mine Unit 1. We highlight that the firm has completed aquifer pump tests and baseline water sampling in January 2020. The company has also prepared wellfield data for submission to the Wyoming Department of Environmental Quality during the quarter ending next month. We ultimately expect Peninsula to complete its optimization and de-risking activities during CY20 with the possibility of making an investment decision in parallel to these advancements.

**Idled production in-line with low pH priority.** During 2Q20, Peninsula produced 3,898 pounds (lbs) of  $U_3O_8$ , for total QoQ growth of 433% amid a 81% decrease YoY that is mostly due the idling of alkaline-based operations. However, the firm remains comfortably positioned to cover its near-term sales agreements. Notably, Peninsula scheduled its next delivery of 116,000 lbs of  $U_3O_8$  for April 1, 2020. This delivery is mostly covered through a prior purchase of 100,000 lbs, at a cost of \$25/lb, while management expects to draw the remaining 16,000 lbs from existing inventory. We note that Peninsula has also entered into a purchase contract for 75,000 lbs of  $U_3O_8$  at a price of \$26.60/lb in order to cover its October 1, 2020 deliveries at an average delivery cash price of \$45/lb. Going forward we expect Peninsula's strong margins from its purchase and sales contracts to provide for steady advancement and optimization of its low pH developments at Lance.

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**We reiterate our Buy recommendation while lowering our price target to A\$0.40 per share from A\$0.90 per share.** Our reduced PT was due to a variety of adjustments in our longer-term production estimates. The decrease in our target price was further driven by a greater number of shares outstanding. Our valuation remains based on a DCF of operations at the Lance Projects, utilizing a 10% discount rate. We use an average U<sub>3</sub>O<sub>8</sub> sales price of \$50/lb for FY23 and beyond, which is in-line with the firm's long-term contractual sales commitments. We continue to consider Peninsula an attractive way to participate in the domestic U<sub>3</sub>O<sub>8</sub> space, which also appears to be on the verge of securing Government support. We further note that the current incremental clarity on the Section 232 investigation is likely to increase investor interest in Peninsula and the uranium space as a whole.

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

	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
(000s US\$)								
Revenue	0	0	0	25,000	50,000	75,000	100,000	100,000
Total operating costs	3,500	3,500	3,500	13,500	22,500	30,000	37,500	37,500
Corporate costs	7,000	7,000	8,000	8,000	8,000	8,000	8,000	8,000
Operating income	(14,000)	(14,000)	(15,000)	(2,000)	12,000	27,500	43,000	43,000
EBITDA	1,000	1,000	0	13,000	27,000	42,500	58,000	58,000
Taxes	-	-	-	-	-	3,750	8,400	8,400
<b>EPS</b>	<b>(\$0.05)</b>	<b>(\$0.05)</b>	<b>(\$0.05)</b>	<b>(\$0.01)</b>	<b>\$0.04</b>	<b>\$0.08</b>	<b>\$0.12</b>	<b>\$0.12</b>
Cash Flow	(19,000)	(3,636)	(4,132)	6,011	15,026	23,285	29,917	27,197
Total capital costs	20,000	83,000	5,000	5,000	5,000	5,000	5,000	5,000
NPV @ 10%	<b>\$99,392</b>							
NAV / share (A\$)	<b>\$0.40</b>							

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

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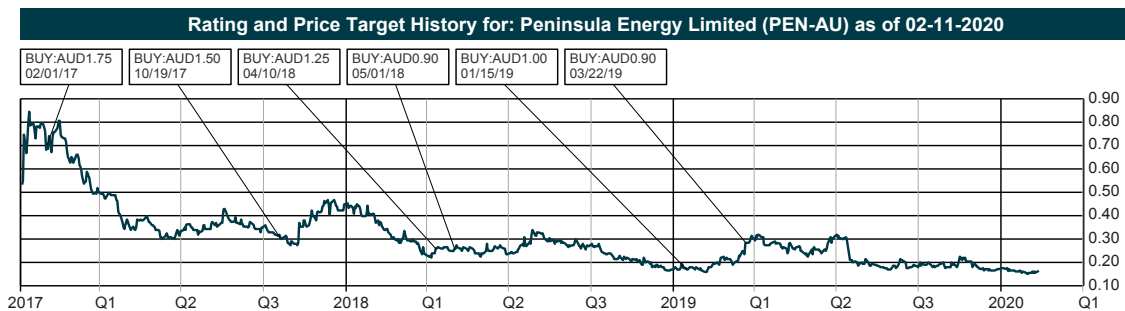
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Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	380	91.79%	135	35.53%
Neutral	32	7.73%	7	21.88%
Sell	0	0.00%	0	0.00%
Under Review	2	0.48%	2	100.00%

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