

## SECTION 232 INVESTIGATION OUTCOME: TRUMP DUMPS RECOMMENDATION

### Investment Highlights

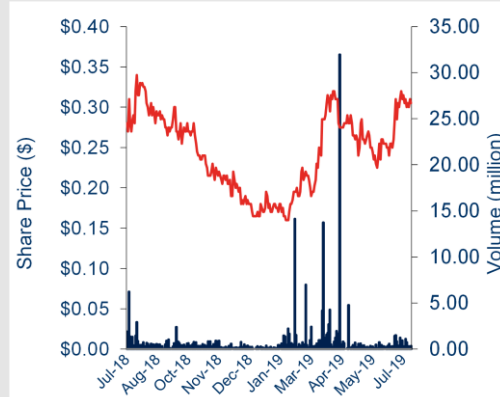
- **The US President announced on Saturday (Australian time) he will not impose quotas on imports of uranium - a rare move given the current Administration's propensity for trade confrontations with the goal of protecting American industry. The President does not agree with the Department of Commerce's (DoC) findings that foreign uranium imports pose a threat to national security. However, he has stated: "Although I agree that the [DoC] findings raise significant concerns regarding the impact of uranium imports on the national security with respect to domestic mining, I find that a fuller analysis of national security considerations with respect to the entire nuclear fuel supply chain is necessary at this time." We note that Trump has previously highlighted a desire for a strong domestic nuclear industry.**
- **And so it goes...** In light of the above, a United States Nuclear Fuel Working Group (Working Group) will be established to develop recommendations for reviving and expanding domestic nuclear fuel production. The Working Group, is required to submit a report to the President setting forth the Working Group's findings and making recommendations to further enable domestic nuclear fuel production, if needed, by 11 October 2019.
- **...The wait shall continue.** We previously stated that, regardless of the Section 232 investigation outcome – domestic quotas or not – it would be positive for uranium price as it would give certainty to the uranium buyers to resume purchasing uranium. We maintain this view, however, this announcement will likely provide a further 90 days of uncertainty while we await the findings of the Working Group.
- **Downgrade to Sell.** On speculation of no domestic quotas, North American listed uranium companies Ur Energy Inc., Energy Fuels Inc. and Uranium Energy Corp traded sharply down 34%, 36.9%, and 25.7% respectively on Friday. However these share price reactions were prior to the official Administration response and the details of a Working Group industry review. We note that our PEN valuation is unchanged and our Sell rating is related more to PEN's recent share price appreciation and the ongoing uncertainty in the uranium market that the abovementioned US Administration ruling may bring before utilities resume uranium purchases.
- **Valuation: \$0.32/share.** Our PEN valuation is based on a DCF analysis of the three stage development of the Lance Projects, risk weighted at 60%.

Year End Jun 30	2018A	2019F	2020F	2021F	2022F
Reported NPAT (\$m)	(9.1)	(14.8)	(18.3)	(10.4)	(6.6)
Recurrent NPAT (\$m)	(9.1)	(14.8)	(18.3)	(10.4)	(6.6)
Recurrent EPS (cents)	(3.9)	(6.0)	(7.5)	(4.3)	(2.7)
EPS Growth (%)	na	na	na	na	na
PER (x)	(7.8)	(5.1)	(4.1)	(7.2)	(11.3)
EBITDA (\$m)	(4.1)	(10.0)	(11.9)	0.8	11.6
EV/EBITDA (x)	(18.3)	(10.1)	(9.7)	175.4	13.3
Free Cashflow	10.4	(10.7)	(24.6)	(19.7)	(18.4)
FCFPS (cents)	4.5	(4.4)	(10.1)	(8.0)	(7.5)
PFCF (x)	6.8	(7.0)	(3.0)	(3.8)	(4.1)
DPS (cents)	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	0.0	0.0	0.0

14 July 2019		
12mth Rating	SELL	
Price	A\$	0.31
Target Price	A\$	0.32
12mth Total Return	%	5.0
RIC: PEN.AX	BBG: PEN AU	
Shares o/s	m	249.7
Free Float	%	97.7
Market Cap.	A\$m	76.1
Net Debt (Cash)	A\$m	4.1
Net Debt/Equity	%	5.1
3mth Av. D. T'over	A\$m	0.123
52wk High/Low	A\$	0.34/0.16
2yr adj. beta		0.93
<b>Valuation:</b>		
Methodology		DCF
Value per share	A\$	0.32

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### 12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	22.0	10.9	17.3
Rel. S&P/ASX 300	19.4	3.5	10.2

## PENINSULA ENERGY LIMITED (PEN.AX)

Price \$0.31

Year End 30 June

Valuation	A\$m	\$/share
Lance Projects, risked at 60%	154	0.38
Karoo Projects, South Africa	0	0.00
Net Cash (Debt)	(10)	(0.02)
Corporate Costs	(13)	(0.03)
<b>Total Valuation</b>	<b>131</b>	<b>0.32</b>

Commodity Assumptions	2018A	2019F	2020F	2021F
US\$/A\$	0.77	0.72	0.73	0.73
Uranium Price (US\$/lb)	21.8	26.9	40.0	45.0

Production Summary	2018A	2019F	2020F	2021F
Annual production (lb)	81,639	86,185	338,000	500,000
Production Rate (U308/day)	425	235	930	1,370

Reserves & Resources	Tonnes (M)	Grade (ppm)	U <sub>3</sub> O <sub>8</sub> (Mlb)	U <sub>3</sub> O <sub>9</sub> (Mkg)
<b>Lance Projects Resource Estimate, as at 31 December 2017.</b>				
<b>Measured</b>	3.8	488	3.9	1.9
<b>Indicated</b>	10.9	495	11.9	5.4
<b>Inferred</b>	36.3	476	38.1	17.3
<b>Total</b>	<b>51</b>	<b>479</b>	<b>53.9</b>	<b>24.5</b>

Profit & Loss (A\$m)	2018A	2019F	2020F	2021F
Total revenue	13.2	7.8	7.5	16.1
Operating costs	(14.9)	(14.4)	(16.1)	(11.8)
Exploration expensed	0.0	0.0	0.0	0.0
Corporate & admin	(2.7)	(2.2)	(2.3)	(2.3)
Other expenses	0.3	(1.1)	(1.1)	(1.2)
<b>EBITDA</b>	<b>(4.1)</b>	<b>(10.0)</b>	<b>(11.9)</b>	<b>0.8</b>
DD&A	(2.2)	(1.4)	(0.6)	(1.0)
<b>EBIT</b>	<b>(6.3)</b>	<b>(11.3)</b>	<b>(12.5)</b>	<b>(0.2)</b>
Net interest income (expense)	(2.8)	(3.2)	(5.8)	(10.2)
Tax expense	0.0	-0.3	0.0	0.0
<b>NPAT (underlying)</b>	<b>(9.1)</b>	<b>(14.8)</b>	<b>(18.3)</b>	<b>(10.4)</b>
Diluted EPS (cps)	<b>(3.9)</b>	<b>(6.0)</b>	<b>(7.5)</b>	<b>(4.3)</b>
DPS (cps)	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Ratios	2018A	2019F	2020F	2021F
P/E (x)	-7.8	-5.1	-4.1	-7.2
Enterprise Value	75.4	100.7	115.5	135.6
EV/EBITDA (x)	-18.3	-10.1	-9.7	175.4
EV/Free Cash Flow	7.2	(9.4)	(4.7)	(6.9)
PFCF (x)	6.8	(7.0)	(3.0)	(3.8)
DPS (cents)	0	0	0	0
Div. Yield (%)	na	na	na	na
Franking (%)	na	na	na	na

## Directors &amp; Management

Name	Position
John Harrison	Non-Executive Chairman
Wayne Heili	Managing Director / CEO
Harrison (Hink) Barker	Non-Executive Director
Mark Wheatley	Non-Executive Director
David Coyne	Finance Director / CFO

## Top Shareholders (as at 30 June 2019)

	Shares (m)	%
Paradise Investmtnet Management	24.0	9.8
Resource Capital Funds	22.6	9.2
Pala Investments Limited	12.2	5.0
BlackRock Inc	11.6	4.7
Mirae Asset Global Investments	4.6	1.9
<b>Top 5 Shareholders</b>	<b>75.0</b>	<b>30.6</b>

Cash Flow (A\$m)	2018A	2019F	2020F	2021F
EBIT (Cash Flow)	(6.3)	(11.3)	(12.5)	(0.2)
Depreciation - Cash Flow	(2.2)	(1.4)	(0.6)	(1.0)
Net Interest Paid	(2.8)	(3.2)	(5.8)	(10.2)
Tax Paid	2.2	1.4	0.6	1.0
Other Operating Cash Flows	0.0	0.0	0.0	0.0
<b>Operating Cash Flow</b>	<b>(9.1)</b>	<b>(14.5)</b>	<b>(18.3)</b>	<b>(10.4)</b>
Capital expenditure	(3.0)	(0.8)	(6.9)	(10.2)
Exploration expenditure	0.0	0.0	0.0	0.0
<b>Free Cash Flow</b>	<b>(12.1)</b>	<b>(15.3)</b>	<b>(25.2)</b>	<b>(20.6)</b>
Dividends	0.0	0.0	0.0	0.0
Equity Raised	0.0	0.0	0.0	0.0
Debt drawn (repaid)	(4.6)	4.4	35.0	40.0
<b>Net Change in Cash</b>	<b>(16.7)</b>	<b>(10.9)</b>	<b>9.8</b>	<b>19.4</b>
Cash at Period End	12.0	4.9	14.8	34.8
<b>Net Cash (Debt)</b>	<b>(4.1)</b>	<b>(26.0)</b>	<b>(40.8)</b>	<b>(60.9)</b>

Balance Sheet (A\$m)	2018A	2019F	2020F	2021F
Cash	12.0	4.9	14.8	34.8
<b>Total Assets</b>	<b>111.4</b>	<b>98.3</b>	<b>115.0</b>	<b>144.6</b>
Creditors	3.2	2.4	2.4	2.4
Current Borrowings	15.7	0.3	0.0	0.0
Non-current Borrowings	0.4	30.6	55.6	95.6
Provisions	10.6	10.8	10.8	10.8
<b>Total Liabilities</b>	<b>30.6</b>	<b>34.6</b>	<b>69.6</b>	<b>109.5</b>
<b>Shareholders Funds</b>	<b>81.5</b>	<b>65.0</b>	<b>46.8</b>	<b>36.3</b>

## Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
20 Oct 15	Research Note	2.35	1.38	SB	
26 Nov 15	Commodity Analysis	2.35	1.03	SB	
22 Jan 16	Hot off the Press	2.35	0.88	SB	-14.1%
11 Mar 16	Hot off the Press	1.90	0.80	SB	N/A
26 Apr 16	Hot off the Press	1.90	0.84	SB	5.0%
09 Jun 16	Hot off the Press	1.90	0.64	SB	-24.4%
29 Jul 16	Research Note	1.20	0.68	SB	7.1%
08 Dec 16	Ceased Coverage	1.20	0.52	SB	-24.3%
13 Mar 19	Research Note	0.28	0.20	SB	-61.2%
21 Mar 19	Research Note	0.31	0.29	H	45.0%
01 Apr 19	Research Note	0.31	0.31	H	6.9%
11 Apr 19	Research Note	0.31	0.31	H	0.0%
16 Apr 19	Research Note	0.30	0.27	H	-12.9%
25 Jun 19	Research Note	0.32	0.32	H	18.5%
	Current Share Price		0.31		-4.7%

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