Peninsula Energy Limited (PEN-AU)
Rating: Buy

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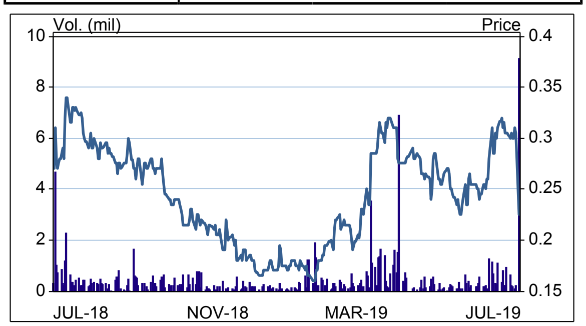
Company Update as Section 232 Decision Extended 90 Days; Trump Creates Working Group for Further Analysis; Reiterate Buy

Stock Data	07/15/2019
Price	A$0.23
Exchange	ASX
Price Target	A$0.90
52-Week High	A$0.34
52-Week Low	A$0.15
Enterprise Value (M)	A$62
Market Cap (M)	A$56
Shares Outstanding (M)	249.7
3 Month Avg Volume	473,306
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



Further analysis required for Section 232 decision. On July 12, 2019, President Trump issued a long-anticipated memorandum on the effect of uranium imports on national security as it relates to the Section 232 investigation. While President Trump noted that there are "significant concerns regarding the impact of uranium imports on the national security with respect to domestic mining", he believes a more complete analysis of the entire supply chain is necessary. To that end, he has created the United States Nuclear Fuel Working Group in order to analyze the challenges of producing domestic uranium while ensuring domestically produced uranium can satisfy defense requirements. His decision comes as a continuation of his announcement on June 29, 2017, to expand the U.S. nuclear sector.

Decision expected in 90 days. The United States Nuclear Fuel Working Group, which is expected to include six cabinet members, now has 90 days to submit a report to President Trump and "make recommendations to further enable domestic nuclear fuel production if needed." We view the President's decision as a step above a "soft no" which is how the decision has been perceived in the market thus far. Our opinion remains that some form of change is likely necessary to ensure the domestic uranium market is protected against foreign imports as a lack of control on the fuel cycle is dangerous for national security.

Domestic producers fall but Peninsula fairs relatively well. Negative speculative news articles on July 12, 2019, caused stocks of US-focused uranium producers to decline meaningfully prior to the President actually releasing his decision. However, Australian-based Peninsula did not see its shares decline until Monday given the market was already closed when these rumors came out and subsequently fell about 26% on the day, which was less than its peers since the memo did not sound as negative as initially feared. The stock is now down 16.7% from July 15, 2018, while the Global X Uranium ETF (URA; not rated) has decreased by about 8.2% over the same period.

Further downside for US-focused uranium firms is likely limited. Given the sharp market reaction, we believe additional downside risk in domestic uranium producers should be limited. We further view the possibility for upside potential given either either the Government making a more favorable decision, or possible M&A activity. Notably, Peninsula was not a Section 232 petitioner and is thus less likely to be penalized by utility firms than some of its peers that actually petitioned for changes. We highlight that Peninsula remains focused on improving productivity while lowering costs and ensuring relationships with existing customers remain strong. Lastly, Peninsula's relatively strong balance sheet of A$9.6M in cash and other recent initiatives mentioned below, we remain positive on the outlook for the firm.

Alkaline based production at Lance project to idle. On July 15, 2019, Peninsula reported that after spending the last 18 months preparing to transition the Lance project In-Situ Recovery operations from an alkaline based solution to a low pH solution, it has decided to idle alkaline based production to focus on completing the low pH field demonstration. This should allow the firm to incorporate improvements realized from the field demonstration into the operation and improve recovery rates. Management thus expects uranium extraction in Mine Units 1 and 2 using the low pH solutions to be more efficient than the alkaline method though we believe that commercial production depends on improving market pricing conditions. Lastly, Peninsula has enough inventory on hand to meet near-term commitments since the firm has contracts to purchase uranium at under $24/lb for commitments over the next year.

Negotiating sale of portion of existing long-term uranium contract. On July 3, 2019, Peninsula announced that it was in advanced negotiations to sell a portion of an existing long-term uranium contract and purchase agreement for upfront cash. While the firm intends on announcing an update on these negotiations, we believe the additional upfront capital during times of uncertainty in the uranium market concurrent with low prices bodes well for the company as it looks to transition its Lance project to low pH solutions in order to improve its effectiveness.

We reiterate our Buy recommendation and our price target of $0.90 per share. While we have moved our model forward to FY19, we have lowered forecasted production as a result of the lengthened Section 232 decision and current operational changes at the firm. Given these offsetting changes our price target remained unchanged. 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, we continue to consider Peninsula an attractive way to participate in the domestic uranium space and view the current stock price decline as an attractive 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	33,600	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	1,712	3,000	6,000	18,200	27,500	43,000	43,000	43,000
EBITDA	13,712	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	(12,288)	(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%	**$183,142**							
NAV / share (A$)	**$0.90**							

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

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RETURN ASSESSMENT

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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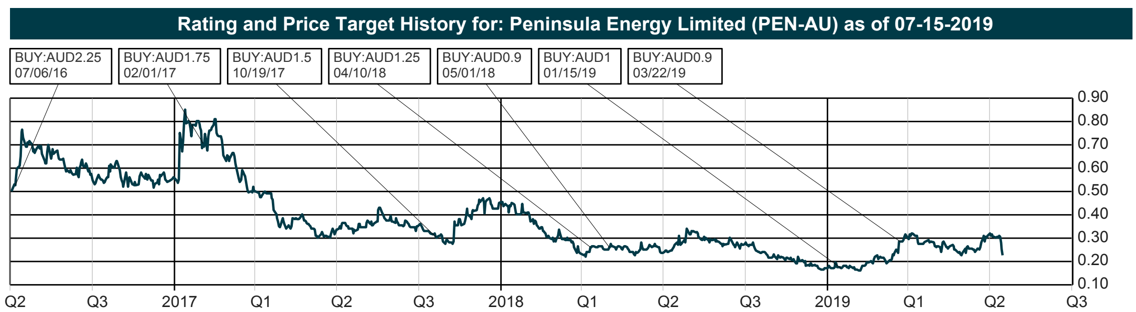

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Distribution of Ratings Table as of July 15, 2019				
			IB Service/Past 12 Months	
Ratings	Count	Percent	Count	Percent
Buy	338	92.60%	119	35.21%
Neutral	25	6.85%	3	12.00%
Sell	0	0.00%	0	0.00%
Under Review	2	0.55%	0	0.00%
Total	365	100%	122	33.42%

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