

IMPAIRMENT KNOCK-ON EFFECT

Investment Highlights

- PEN has flagged the recognition of a non-cash impairment expense of between US\$20m and US\$30m in the 2019 financial year. The impairment has arisen due to the market cap of the Company being below the carrying value of Lance Projects over the past 18 months. PEN expects that, post impairment, the carrying value will approximate the market cap of the Company as at 30 June 2019 (approximately A\$76m). While the impairment is a non-cash charge, it does have implications for the Convertible Note debt facilities.**
- Implications for the Convertible Notes.** The current US\$17m in Convertible Notes have a requirement to maintain a tangible net worth of at least US\$80m on each quarterly test date. As a result of the abovementioned impairment, PEN estimates it may not meet this requirement by the next test date, 30 September 2019. However, the Convertible Note holders have agreed to defer this test date until 31 October 2019. Even if a breach of the conditions occurs at this time, under the terms of the Convertible Notes, no single lender can demand repayment under its own volition - the lenders need 75% of the debt interest to be in favour for this to occur.
- What are the chances of the note holders demanding repayment?** This is unlikely in our view as it would require 50% note holder RCF to act with one of the two other note holders, however given RCF and Collins St both maintain equity stakes in the Company they are not incentivised to demand repayment. In addition, we note that RCF continues to maintain a nominee on the Board.
- US Nuclear Fuel Working Group update.** The US Nuclear Fuel Working Group is scheduled to deliver its recommendations to the US President on 10 October 2019. While there has largely been radio silence on the progress of the Group to date, we believe any outcomes from the Working Group will likely be beneficial to the US nuclear industry, with potential indirect benefits for US uranium producers possible via, for example, possible enforcement of Iranian sanctions which would lead to a knock on effect as to where uranium purchased by US utilities may be sourced.
- Valuation: \$0.24/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)	(10.8)	(13.9)	(10.6)	(6.8)
Recurrent NPAT (\$m)	(9.1)	(10.8)	(13.9)	(10.6)	(6.8)
Recurrent EPS (cents)	(3.9)	(4.4)	(5.7)	(4.3)	(2.8)
EPS Growth (%)	na	na	na	na	na
PER (x)	(4.5)	(4.0)	(3.1)	(4.0)	(6.3)
EBITDA (\$m)	(4.1)	(6.5)	(8.4)	0.8	11.6
EV/EBITDA (x)	(10.9)	(7.9)	(9.2)	126.4	10.0
Free Cashflow	10.4	(6.7)	(20.7)	(19.8)	(18.6)
FCFPS (cents)	4.5	(2.7)	(8.5)	(8.1)	(7.6)
PFCF (x)	3.9	(6.4)	(2.1)	(2.2)	(2.3)
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

18 September 2019

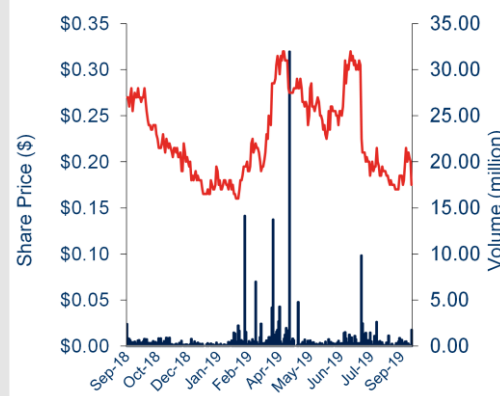
12mth Rating	BUY
Price	A\$ 0.18
Target Price	A\$ 0.24
12mth Total Return	% 35.7

RIC: PEN.AX	BBG: PEN AU
Shares o/s	m 249.7
Free Float	% 97.7
Market Cap.	A\$m 43.7
Net Debt (Cash)	A\$m 8.7
Net Debt/Equity	% 10.8
3mth Av. D. T'over	A\$m 0.158
52wk High/Low	A\$ 0.32/0.16
2yr adj. beta	0.89

Valuation:	
Methodology	DCF
Value per share	A\$ 0.24

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12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	(2.8)	(30.0)	(35.2)
Rel. S&P/ASX 300	(6.0)	(30.4)	(43.1)

Anticipated Lance Projects Impairment

PEN has flagged the recognition of a non-cash impairment expense of between US\$20m and US\$30m in the 2019 financial year. The impairment has arisen due to the market cap of the Company being below the carrying value of Lance Projects over the past 18 months. PEN expects that, post impairment, the carrying value will approximate the market cap of the Company as at 30 June 2019 (approximately A\$76m). PEN will release its FY19 financial results by the end of September 2019.

What is the Impact of the Impairment on the Convertible Notes?

The current US\$17m in Convertible Notes have a requirement to maintain a tangible net worth of at least US\$80m on each quarterly test date. As a result of the abovementioned impairment, PEN estimates it may not meet this requirement by the next test date, 30 September 2019. To this end, the Convertible Note holders have agreed to defer this test date until 31 October 2019.

What Could Change by the Next Test Date?

The Convertible Notes are due for repayment in April 2020, and as has been previously communicated by the Company, PEN is reviewing a number of initiatives to reduce its debt obligations, including potential monetisation of its contracts, "possible corporate activity" (eg: sale of a partial stake in the Project), and "other forms of financing" (replacement debt, or equity). We estimate PEN could receive around US\$10m from monetising its contracts, and we already include equity dilution in our valuation of around \$63m.

In addition, the US Nuclear Fuel Working Group is scheduled to deliver its recommendations to the US President on 10 October 2019. We believe any outcomes from the Working Group may be beneficial to the US nuclear industry more broadly, with potential indirect benefits for US uranium producers possible via, for example, possible enforcement of Iranian sanctions which would lead to a knock on effect as to where uranium purchased by US utilities may be sourced.

Can the Convertible Note Holders Demand Repayment?

Even if a breach of the conditions occurs at the test date of 31 October 2019, under the terms of the Convertible Notes, no single lender can demand repayment under its own volition - the lenders need 75% of the debt interest to be in favour for this to occur. This would require 50% note holder RCF to act with one other note holder, however given RCF and Collins St both maintain equity stakes in the Company (see Figure 1), they are not incentivised to demand repayment. In addition, we note that RCF continues to maintain a nominee on the Board.

Figure 1: Convertible Note Holders

Convertible Note Holders	% of Convertible Notes Held	PEN Equity Shareholding
Resource Capital Funds (RCF)	50%	9.5%
Collins Street Asset Management	25%	3.1%
Pala Investments Limited	25%	0.0%

Source: Patersons Securities, Company Reports

PENINSULA ENERGY LIMITED (PEN.AX)**Price \$0.18**

Valuation	A\$m	\$/share
Lance Projects, risked at 60%	156	0.28
Karoo Projects, South Africa	0	0.00
Net Cash (Debt)	(9)	(0.02)
Corporate Costs	(13)	(0.02)
Total Valuation	134	0.24

Year End 30 June

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	85,176	109,000	500,000
Production Rate (U308/day)	425	233	300	1,370

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

Profit & Loss (A\$m)	2018A	2019F	2020F	2021F
Total revenue	13.2	7.8	7.2	16.1
Operating costs	(14.9)	(11.0)	(12.2)	(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)
EBITDA	(4.1)	(6.5)	(8.4)	0.8
DD&A	(2.2)	(1.4)	(0.2)	(1.0)
EBIT	(6.3)	(7.9)	(8.6)	(0.2)
Net interest income (expense)	(2.8)	(2.6)	(5.3)	(10.4)
Tax expense	0.0	-0.3	0.0	0.0
NPAT (underlying)	(9.1)	(10.8)	(13.9)	(10.6)
Diluted EPS (cps)	(3.9)	(4.4)	(5.7)	(4.3)
DPS (cps)	0.0	0.0	0.0	0.0

Ratios	2018A	2019F	2020F	2021F
P/E (x)	-4.5	-4.0	-3.1	-4.0
Enterprise Value	45.0	51.6	77.5	97.7
EV/EBITDA (x)	-10.9	-7.9	-9.2	126.4
EV/Free Cash Flow	4.3	(7.7)	(3.7)	(4.9)
PFCF (x)	3.9	(6.4)	(2.1)	(2.2)
DPS (cents)	0	0	0	0
Div. Yield (%)	na	na	na	na
Franking (%)	na	na	na	na

Directors & 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)	%
Paradice Invesmtnet 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
Top 5 Shareholders	75.0	30.6

Cash Flow (A\$m)	2018A	2019F	2020F	2021F
EBIT (Cash Flow)	(6.3)	(7.9)	(8.6)	(0.2)
Depreciation - Cash Flow	(2.2)	(1.4)	(0.2)	(1.0)
Net Interest Paid	(2.8)	(2.6)	(5.3)	(10.4)
Tax Paid	2.2	1.4	0.2	1.0
Other Operating Cash Flows	0.0	0.0	0.0	0.0
Operating Cash Flow	(9.1)	(10.5)	(13.9)	(10.6)
Capital expenditure	(3.0)	(0.8)	(6.9)	(10.2)
Exploration expenditure	0.0	0.0	0.0	0.0
Free Cash Flow	(12.1)	(11.3)	(20.9)	(20.8)
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
Net Change in Cash	(16.7)	(6.9)	14.1	19.2
Cash at Period End	12.0	8.5	22.4	42.2
Net Cash (Debt)	(4.1)	(8.7)	(34.6)	(54.8)

Balance Sheet (A\$m)	2018A	2019F	2020F	2021F
Cash	12.0	8.5	22.4	42.2
Total Assets	111.4	77.0	98.0	127.4
Creditors	3.2	2.4	2.4	2.4
Current Borrowings	15.7	0.3	0.0	0.0
Non-current Borrowings	0.4	17.0	57.0	97.0
Provisions	10.6	10.8	10.8	10.8
Total Liabilities	30.6	34.3	69.2	109.2
Shareholders Funds	81.5	44.0	30.1	19.5

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
13 Mar 19	Research Note	0.28	0.20	SB	
21 Mar 19	Research Note	0.31	0.29	H	
01 Apr 19	Research Note	0.31	0.31	H	6.9%
11 Apr 19	Research Note	0.31	0.31	H	N/A
16 Apr 19	Research Note	0.30	0.27	H	-12.9%
25 Jun 19	Research Note	0.32	0.32	H	18.5%
14 Jul 19	Research Note	0.32	0.31	S	-3.1%
30 Jul 19	Research Note	0.26	0.20	B	-35.5%
02 Aug 19	Research Note	0.26	0.20	B	0.0%
	Current Share Price		0.18		-12.5%

Stock recommendations: Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.



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