

August 1, 2016

Stage 2 Development On-Deck; Reiterating Buy

Stock Data		07/29/2016		
Rating		Buy		
Price		A\$0.68		
Exchange		ASX		
Price Target		A\$2.25		
52-Week High		A\$1.45		
52-Week Low		A\$0.48		
Enterprise Value (M)		A\$128.1		
Market Cap (M)		A\$1,199		
Public Market Float (M)		175.9		
Shares Outstanding (M)		176.4		
3 Month Avg Volume		96,289		
Balance Sheet Metrics				
Cash (M)		A\$10.40		
Total Debt (M)		A\$18.50		
Total Cash/Share		A\$0.06		
EPS Diluted				
Full Year - Jun		2015A	2016E	2017E
FY		(0.11)	(0.03)	0.03
Revenue (\$M)				
Full Year - Jun		2015A	2016E	2017E
FY		0.2	16.8	42.0



On July 29, 2016, Peninsula Energy announced 2Q16 financial results. During the quarter, Peninsula produced 28,858 pounds of uranium at the Lance Projects, primarily from header houses 1 and 2. Although header houses 3 and 4 are currently operating, they did not come online until July, which leads us to believe Peninsula can increase QoQ production in 3Q16. Overall, the firm sold a total of 55,000 pounds of uranium at an average price of \$62.80 per pound—significantly above the current spot price of below \$30.00 per pound. Given the current ramp up of production at Lance, we think a 600,000 - 700,000 pound per annum run rate should be achievable by 1H17. Eventually, Stage 1 at Lance is expected to host seven header houses that should all be online by the end of 2016.

Development of Stage 2 expected. While the ramp up of Stage 1 continues to move forward as expected, Peninsula has begun initial development activities for Stage 2 of the project, while final financing arrangements are ironed out. The funding package for the expansion remains underway as the due diligence process proceeds with respect to securing a revenue streaming facility. While the terms of the envisioned financing package have yet to be released, we think this non-dilutive financing should provide approximately \$25.0 million towards the total capital cost of Stage 2, which we estimate to be approximately \$35.0 million. We view the development of Stage 2 as critical, since the expansion expected to increase production capacity to 1.2 million pound per annum while also reducing costs substantially to approximately \$30 per pound on an AISC basis.

Long-term contracts allow for profitability. Given that Peninsula currently has five long-term contracts totaling 7.9 million pounds at an average price of \$56 per pound, we believe substantial margins should be realized despite a floundering uranium spot market. With AISC expected to drop to the \$30 per pound range following the Stage 2 expansion, we expect Peninsula to enjoy margins of approximately 45%—a luxury in today's uranium market. While we expect Stage 2 to be constructed by 2018, we continue to believe flexibility with respect to this timeline remains. While we do not view the scenario as likely, should spot uranium stay below the firm's AISC of production, management could choose to purchase uranium at spot and sell it into its higher-priced long-term contracts rather than moving forward with the expansion. While we fully expect the Stage 2 expansion to occur, this potential provides management with greater flexibility to tailor operations depending on market conditions.

We are reiterating a Buy rating and \$2.25 per share price target on Peninsula Energy. Our valuation remains predicated on a DCF of operations at Lance utilizing a 10% discount rate, which we expect to revisit following the completion of the Stage 2 expansion. We continue to view Peninsula as a defensive uranium name, primarily due to the existence of higher-priced long-term contracts. In our opinion, these contracts should allow Peninsula to not only survive, but thrive in the current uranium price environment.

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

	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
(000s US\$)										
Revenue	16,800	42,000	67,200	67,200	128,800	128,800	128,800	128,800	128,800	128,800
Total operating costs	9,600	21,500	24,200	24,200	39,500	39,500	39,500	39,500	39,500	39,500
Corporate costs	5,000	5,000	5,000	7,000	8,000	8,000	8,000	8,000	8,000	8,000
Operating income	(1,144)	10,140	29,624	27,624	67,496	67,496	67,496	67,496	67,496	67,496
EBITDA	3,856	15,140	41,624	39,624	82,496	82,496	82,496	82,496	82,496	82,496
Taxes	-	-	-	-	15,749	15,749	15,749	15,749	15,749	15,749
EPS	(\$0.03)	\$0.03	\$0.10	\$0.09	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21
Cash Flow	(1,144)	9,218	1,342	26,014	(344)	48,119	43,744	39,768	36,152	32,866
Total capital costs	5,000	5,000	40,000	5,000	83,000	5,000	5,000	5,000	5,000	5,000
NPV @ 10%	\$323,131									
NAV / share (A\$)	\$2.25									

Rodman & Renshaw estimates.

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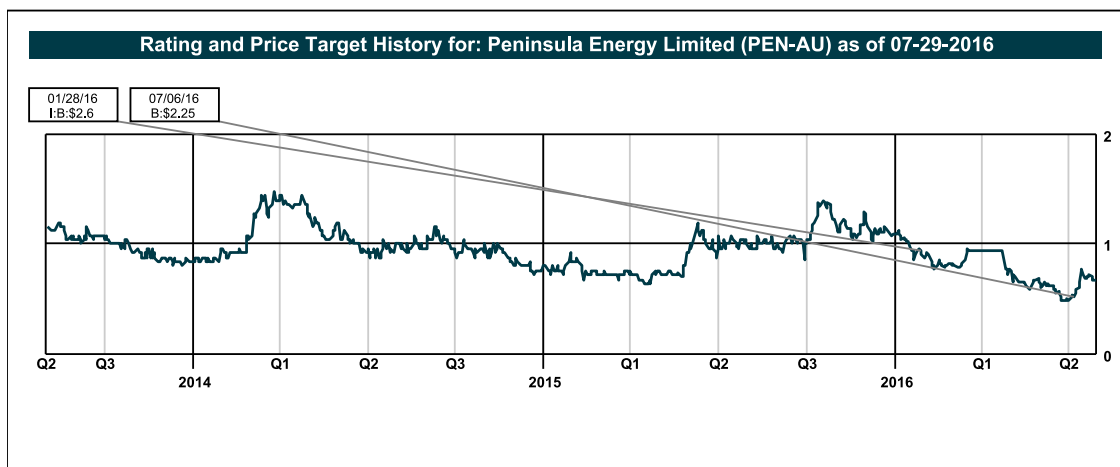
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Market Outperform (Buy): The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector.

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Distribution of Ratings Table as of July 29, 2016				
Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	179	95.72%	55	30.73%
Neutral	6	3.21%	2	33.33%
Sell	0	0.00%	0	0.00%
Under Review	2	1.07%	0	0.00%
Total	187	100%	57	30.48%

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