

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

 Heiko F. Ihle, CFA  
 212-356-0510  
[hihle@hwcwresearch.com](mailto:hihle@hwcwresearch.com)  
 Matthew Barry  
 212-356-0520  
[mbarry@hwcwresearch.com](mailto:mbarry@hwcwresearch.com)
**Further Progress at Lance in 4Q18; Reiterate Buy**

Stock Data		07/31/2018		
Price		A\$0.32		
Exchange		ASX		
Price Target		A\$0.90		
52-Week High		A\$0.49		
52-Week Low		A\$0.22		
Enterprise Value (M)		A\$74		
Market Cap (M)		A\$74		
Public Market Float (M)		198.1		
Shares Outstanding (M)		234.0		
3 Month Avg Volume		753,436		
Balance Sheet Metrics				
Cash (M)		A\$24.10		
Total Debt (M)		A\$24.10		
Total Cash/Share		A\$0.10		
EPS Diluted				
Full Year - Jun		2017A	2018E	2019E
FY		(0.37)	(0.04)	(0.02)
Revenue (\$M)				
Full Year - Jun		2017A	2018E	2019E
FY		18.3	12.1	43.2



**Operational transition at Lance continues in 4Q18.** On July 31, 2018, Peninsula released its June 2018 quarterly activities report. The firm continued to make progress in its transition to low pH (better known as acid leach) ISR operations in 4Q18. Notably, the firm submitted a low pH permit to mine amendment request to the Wyoming Department of Environmental Quality (WDEQ) in early April. This permit is expected to allow for a transition of operations in the Ross Permit Area. Peninsula also suspended a large portion of MU1 production activities in May, which management stated was in order to maintain resources and reduce expenses during the transition. Although construction of header house 10 in MU2 was completed in 4Q18, no additional wellfield development capital expenditures are planned under current alkaline operations. We highlight that the firm's operational transition continues to progress, and that amendments to current operating permits and licenses could be in hand by mid-2019.

**Long-term contracts should continue to provide shelter.** During 2018, Peninsula has received \$12.1M from the delivery of 257,934 pounds of uranium into long-term contracts. The above contracts had an average price of about \$47 per pound, which is substantially above spot prices which mostly ranged between \$20 to \$23 during the period. Peninsula fulfilled a portion of these contracts (about 31%) with low-cost purchase agreements at an estimated price of around \$27 per pound, contributing to gross margins of about 43% from these sales. We believe the firm could fulfill a larger portion of its long-term commitments with low-cost purchase agreements in the near term.

**Transition to low pH operations continues with margins in long-term contracts.** We highlight that Peninsula has already contracted to purchase 225,000 pounds of uranium to be delivered into current term contracts in 2019 and 2020. Although delivery commitments during this time frame have not been disclosed, we highlight that Peninsula has up to 6.5M pounds of uranium under contract through 2030 at a weighted average price of between \$51 to \$53 per pound.

**Feasibility Study nearing completion.** Peninsula continues to work towards completing a Feasibility Study that should incorporate cost savings related to low pH operations amid lowered incremental capital and other expenditures related to the transition. We expect the results of the Feasibility Study to be announced sometime near the end of 3Q18, and plan to revisit our 2018 and 2019 assumptions in our model once the study is released.

**We are reiterating our Buy rating and our A\$0.90 per share PT.** Our valuation remains based on a DCF of operations at the Lance Projects, utilizing a 10.0% discount rate. We use an average uranium sales price of \$50 per pound in 2018 and beyond. While this is substantially above current spot prices, the figure is in-line with PEN's long-term contractual sales commitments. We continue to view Peninsula as a defensive uranium name, mainly due to the existence of higher-priced, long-term contracts and a long mine life.

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



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	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
(000s US\$)								
Revenue	12,126	43,200	60,000	60,000	115,000	115,000	115,000	115,000
Total operating costs	13,176	21,900	26,700	26,700	42,000	42,000	42,000	42,000
Corporate costs	3,500	7,000	7,000	7,000	8,000	8,000	8,000	8,000
Operating income	(9,020)	7,344	18,000	18,000	52,300	52,300	52,300	52,300
EBITDA	(8,520)	19,344	33,000	33,000	67,300	67,300	67,300	67,300
Taxes	-	-	-	-	11,190	11,190	11,190	11,190
<b>EPS</b>	<b>(\$0.04)</b>	<b>(\$0.02)</b>	<b>\$0.01</b>	<b>\$0.01</b>	<b>\$0.11</b>	<b>\$0.11</b>	<b>\$0.11</b>	<b>\$0.11</b>
Cash Flow	(16,836)	(5,501)	9,767	19,124	38,683	35,167	31,970	29,063
Total capital costs	10,000	26,000	20,000	83,000	5,000	5,000	5,000	5,000
NPV @ 10%	<b>\$213,714</b>							
NAV / share (A\$)	<b>\$0.90</b>							

Source: HCW estimates, Company reports.

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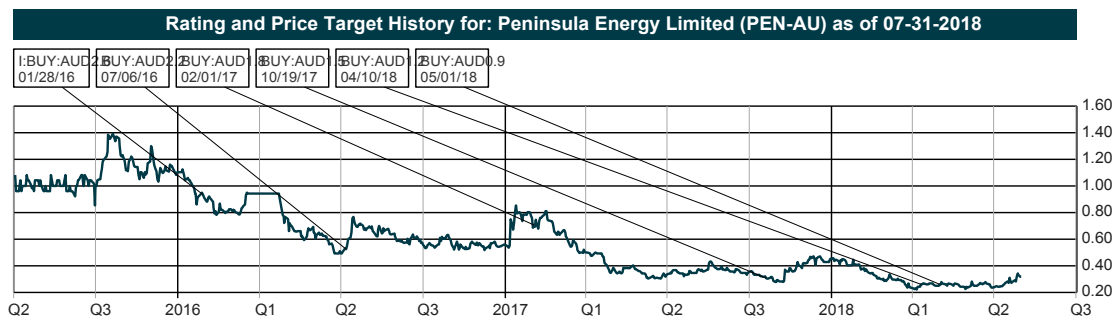
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**Market Outperform (Buy):** The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector.

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Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	278	93.92%	117	42.09%
Neutral	15	5.07%	5	33.33%
Sell	1	0.34%	0	0.00%
Under Review	2	0.68%	0	0.00%
<b>Total</b>	<b>296</b>	<b>100%</b>	<b>122</b>	<b>41.22%</b>

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