


Resources

Peninsula Energy Limited | PEN.AX - AUD0.22 - ASX | Buy

Company Update

Estimates Changed

Stock Data				
52-Week Low - High	AUD0.16 - AUD0.34			
Shares Out. (mil)	249.67			
Mkt. Cap.(mil)	AUD53.68			
3-Mo. Avg. Vol.	670,304			
12-Mo.Price Target	AUD1.00			
Cash (mil)	\$7.5			
Tot. Debt (mil)	\$16.0			
PEN reports on a June 30 fiscal year.				
PEN reports under IFRS				
EPS \$				
Yr Jun	—2018—	—2019E—		—2020E—
		Curr	Prev	Curr
1Half	(0.01)A	(0.04)A	(0.04)A	0.00E
2Half	0.02A	0.00E	0.00E	0.00E
YEAR	0.00A	(0.04)E	(0.03)E	(0.01)E
P/E	--	NM	NM	NM
Revenue (\$ millions)				
Yr Jun	—2018—	—2019E—		—2020E—
		Curr	Prev	Curr
1Half	7.7A	4.1A	4.1A	4.0E
2Half	5.5A	3.6E	7.8E	4.0E
YEAR	13.2A	7.8E	11.9E	8.0E



PEN: Low PH Mining Amendment Approved

On August 2, 2019, PEN announced that the WDEQ had approved an SML amendment for low pH mining at the Lance project. This is a significant milestone for the company as it allows the company to move forward with the transition to a low pH operation, in our view. As a result, we are reiterating our Buy rating and AUD\$1.00 price target.

SML amendment approved. On August 2, 2019, Peninsula Energy announced it had received approval for its Source Material License amendment for low pH mining at the Lance project in Wyoming. The Wyoming Department of Environmental Quality approved the amendment on July 31, 2019, opening the door for the company to begin its transition to a low pH ISR process, in our view.

Ramp up still likely to be slow at first. While we view the receipt of this amendment as a significant milestone for the company, we note it is unlikely that the company will attempt to ramp up production quickly. We base this view on a number of factors. First, spot uranium prices remain under pressure making it unlikely the company could produce and sell into the spot market profitably, in our view. Second, we estimate PEN has only 200,000 pounds of contracted sales for fiscal 2020, which it can fill through spot purchases. Lastly, the company would likely need to raise additional capital to ramp up production quickly and at its current valuation, we estimate this would result in significant dilution. Thus, we anticipate PEN will begin to ramp up production in the second half of fiscal 2020.

Reiterating rating and target. Despite a continued weak uranium market, we believe Peninsula has significant long-term potential. We continue to believe the switch to a low pH operation will enable the company to ramp up production over the medium-term and we note PEN has over six million pounds under contract at an average price between \$51-53 per pound. Thus, we are reiterating our Buy rating and AUD\$1.00 price target.

VALUATION

We base our valuation of PEN on a 11.5% DCF of free cash flow to equity. We use a 11.5% discount rate as we believe PEN is a higher-risk investment as compared to steady-state ISR producers due to its slow production ramp and lack of full U.S. listing. Our DCF returns a value of USD\$280.9 million and we subtract net debt of USD\$4.1 million as of June 30, 2018. Thus, we arrive at a total value of USD\$277 million or USD\$0.70 per fully diluted share (inclusive of convertible debt and future capital raises). We apply the current AUD to USD exchange rate of 1.47 to reach our AUD\$1.00 price target and we are reiterating our Buy rating.

Factors that could impede PEN from reaching our price target include, but are not limited to: underperformance of the uranium price, underperformance of operations, failure to achieve stated production goals, unexpected dilutive capital raises, failure to convert convertible debt, failure to meet debt service requirements, failure to finance expansions, and other unforeseeable events.

RISKS

- **Political risk.** Natural resource companies are subject to significant political risk. Although most mining jurisdictions have known laws, potential exists for these laws to change. PEN's flagship asset is located in Wyoming, which has established laws and regulations for ISR uranium production. Thus, Peninsula has similar political risks to other Wyoming based ISR producers. The company also has assets in South Africa, which we view as higher-risk from a political standpoint.
- **Commodity price risk.** All natural resource companies have some form of commodity price risk. This risk is not only related to final products, but can also be in regards to input costs and substitute goods. PEN's biggest commodity price risk is to the uranium price. However, this risk is somewhat reduced by the company's sales contract portfolio.
- **Operational and technical risk.** Natural resources companies have significant operational and technical risks. Despite completing NI 43-101 compliant (or similar) resource estimates, deposits can still vary significantly compared to expectations. Additionally, numerous unforeseeable issues can occur with operations and exploration activities. We note that as an Australian listed company, PEN's resource and economic studies have been conducted under JORC compliance. We believe that JORC standards are similar to NI 43-101, but note that due to a lack of familiarity, U.S. investors may assign a higher degree of risk to these studies.
- **Market risk.** Although most natural resource companies are more closely tied to individual commodity price performance, large business cycle forces or economic crises can impact a company's valuation significantly. PEN has similar market risk to other uranium producers.

Cautionary Note to US Investors: Estimates of Measured, Indicated and Inferred Resources

"Measured Mineral Resources" and "Indicated Mineral Resources." US investors are advised that although these terms are required by Canadian regulations, the US Securities and Exchange Commission (SEC) does not recognize them, and describes the equivalent as "Mineralized Material." US investors are cautioned not to assume that these terms are any form of guarantee.

"Inferred Mineral Resources." US Investors are advised that while this term is required by Canadian regulations, the SEC does not recognize it. "Inferred Mineral Resources" are not delineated with a great deal of certainty and should not be considered likely to be brought into production in whole or in part.

COMPANY DESCRIPTION

Peninsula Energy Limited is an Australia-based uranium exploration and development company. The company is focused on production at the Lance uranium projects in Wyoming, the United States (Lance Projects), as well as the Karoo uranium projects in the Republic of South Africa (Karoo Projects). The company's segments include Lance Uranium Projects, Wyoming USA; Karoo Uranium Projects, South Africa, and Corporate/Other. The Lance Projects are located on the north-east flank of the Powder River Basin in Wyoming. The Lance Projects have approximately 312 line kilometers of identified roll fronts and an exploration target of 158-217 million pounds U3O8 inclusive of Joint Ore Reserves Committee (JORC) 2012 code-compliant resource. The company holds interest in a total of 40 prospecting rights (PRs) covering around 7,774 square kilometers of the main uranium bearing sandstone channels in the Karoo basin. The Karoo Projects are categorized into the eastern and western sectors. *Source Thomson as of 10/12/2016*

Peninsula Key Estimates

	1h18A	2H18A	2018A	2H19A	2H19E	2019E	2H20E	2H20E	2020E
Revenue	7.7	5.5	13.2	4.1	3.6	7.8	4.0	4.0	8.0
Operating Expenses	9.3	10.5	19.8	8.5	3.6	12.1	3.6	3.6	7.2
Operating Income	(1.6)	(5.0)	(6.7)	(4.4)	0.0	(4.3)	0.4	0.5	0.9
Other Expenses	0.7	(14.9)	(14.2)	3.4	0.9	4.3	0.9	0.9	1.8
Pretax Income	(2.4)	9.9	7.5	(7.8)	(0.8)	(8.6)	(0.5)	(0.5)	(1.0)
Taxes	-	-	-	0.3	-	0.3	0.2	0.2	0.4
Net Income	(2.4)	9.9	7.5	(8.1)	(0.8)	(8.9)	(0.7)	(0.7)	(1.3)
Basic EPS	(\$0.01)	\$0.03	\$0.00	(\$0.04)	(\$0.00)	(\$0.04)	(\$0.00)	(\$0.00)	(\$0.01)
FD EPS	(\$0.01)	\$0.02	\$0.00	(\$0.04)	(\$0.00)	(\$0.04)	(\$0.00)	(\$0.00)	(\$0.01)
CFPS	(\$1.89)	\$15.44	\$0.05	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.00)	\$0.00	\$0.00
FCF to Equity			6.9			(5.4)			(4.8)

Peninsula reports under IFRS

Source: ROTH Capital Partners and Peninsula Statute

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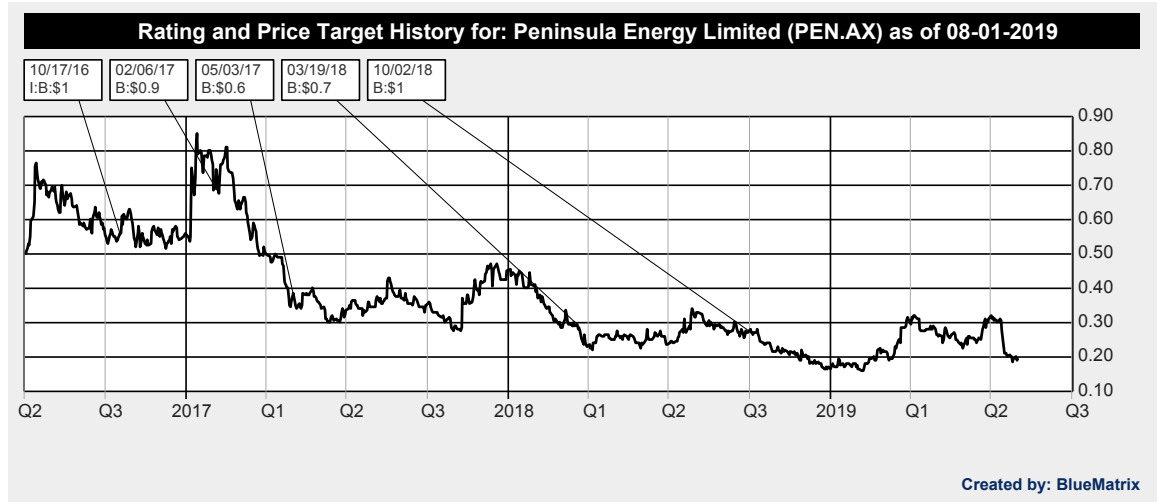
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Disclosures:

Shares of Peninsula Energy Limited may be subject to the Securities and Exchange Commission's Penny Stock Rules, which may set forth sales practice requirements for certain low-priced securities.



Each box on the Rating and Price Target History chart above represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first note written during the past three years. **Distribution Ratings/IB Services** shows the number of companies in each rating category from which Roth or an affiliate received compensation for investment banking services in the past 12 month.

Distribution of IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos. as of 08/04/19	
			Count	Percent
Buy [B]	272	75.98	149	54.78
Neutral [N]	42	11.73	17	40.48
Sell [S]	5	1.40	2	40.00
Under Review [UR]	39	10.89	19	48.72

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Sell: A rating, which at the time it is instituted and or reiterated, that indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

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