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Peninsula Energy Limited (PEN-AU)

Target Price Revision

Metals and Mining

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Fifth Long-Term Contract Provides Price Stability; Reiterate Buy

Stock Data	07/05/2016
Rating	Buy
Price	A$0.53
Exchange	ASX
Price Target	A$2.25
52-Week High	A$1.45
52-Week Low	A$0.48
Enterprise Value (M)	A$94.0
Market Cap (M)	A$93
Public Market Float (M)	175.9
Shares Outstanding (M)	176.4
3 Month Avg Volume	80,521
Balance Sheet Metrics	
Cash (M)	$17.80
Total Debt (M)	$18.50
Total Cash/Share	$0.10

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	17.7	44.3

Production at Lance starting to ramp-up. Since commencing production at the Lance Projects in December 2015, three of the seven header houses envisioned for Stage 1 have come online as management continues to ramp towards full-scale production. We expect the remaining header houses to come online during 2H16, which will complete Stage 1 of the production ramp-up. We expect the completion of Stage 1 to provide the firm with production capabilities totaling 600,000 - 800,000 pounds per year, which we think should serve as a springboard towards completion of Stage 2. The $35 million Stage 2 expansion, which includes an additional seven header houses, is expected to bring total production capacity to 1.2 million pounds per annum. Moreover, while the firm has yet to provide production guidance for 2016, we continue to expect approximately 300,000 pounds of production and expect to receive greater visibility with respect to production once results from CY2Q16 are announced.

Funding for Stage 2 expansion ongoing. During the first quarter, Peninsula announced the closing of a $15.0 million convertible loan with existing investors (RCF and Pala) in addition to a term sheet for a $25 million streaming facility. Combined, these funds should allow the company to complete the approximate $35 million Stage 2 expansion at Lance. While the streaming facility has yet to close, due diligence is well underway and we expect this facility to provide a portion of the capital required to complete the Stage 2 expansion. Not only is the Stage 2 expansion expected to increase production capacity to 1.2 million pounds per annum, it should also drastically reduce operating costs. The expansion should bring processing in-house, rather than through a toll milling agreement. This, coupled with the realization of economies of scale, leads us to believe all-in sustaining costs (AISC) could fall from $41 per pound to just over $30 per pound—a greater than 25% decrease in costs at the site.

Long-term contracts to provide price stability. With the addition of another long-term sales agreement with a European utility company, Peninsula now has five contracts in place totaling 7.9 million pounds over the next decade. We highlight the average price of $56 per pound under these contracts, which is significantly higher than current spot prices of around $27 per pound. In short, we continue to believe Peninsula's higher-priced contracts should provide investors with downside protection with respect to spot uranium prices, while the firm's staged development strategy provides upside through an increased production profile.

We are reiterating our Buy rating, while modestly lowering out PT to A$2.25 from A$2.60. We note that our slightly decreased price target is primarily a reflection of accounting for the firm's recent capital raise below our prior valuation. Our valuation remains predicated on a DCF of operations at Lance utilizing a 10% discount rate, which we expect to revisit following additional long-term production details from Peninsula. 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 ultimately 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.

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(000s US$)	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
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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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.

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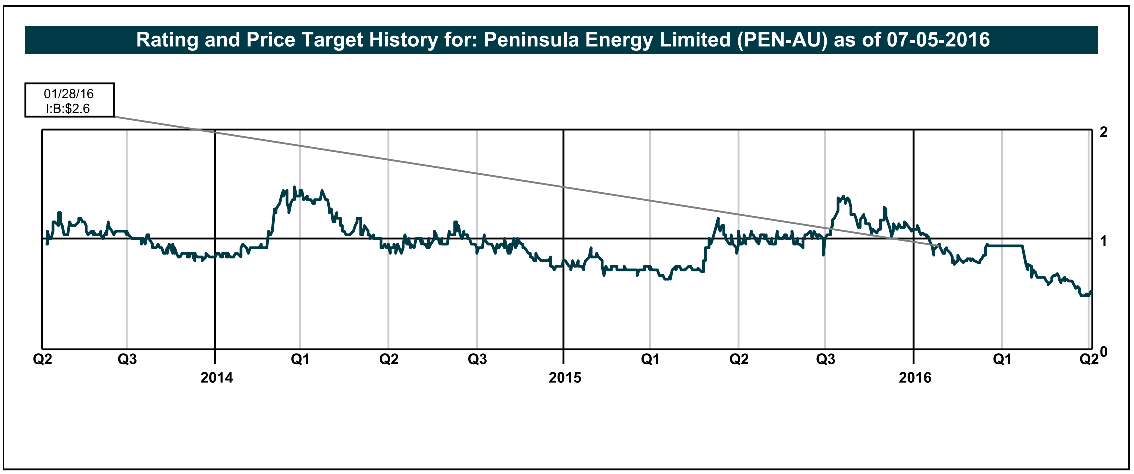

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Distribution of Ratings Table				
			IB Service/Past 12 Months	
Ratings	Count	Percent	Count	Percent
Buy	176	96.70%	51	28.98%
Neutral	3	1.65%	1	33.33%
Sell	0	0.00%	0	0.00%
Under Review	3	1.65%	1	33.33%
Total	182	100%	53	29.12%

Distribution of Ratings Table as of July 1, 2016.

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