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Peninsula Energy Limited

PEN-AU: Price: A$0.07; Market Cap (M): A$63
Rating: Buy; Price Target: A$0.20

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Sufficient Liquidity to Support Ramp-Up at Lance Project Amid Second Low pH Study; Reiterate Buy

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Lance project expected to ramp-up. On August 11, 2020, Peninsula Energy provided an update on further activities at its Lance project in Wyoming. After completing the laboratory phase of optimization test work, a second low pH field demonstration has started and is expected to confirm laboratory results at a near-to-commercial scale. During the next 12 to 18 months, the company plans to focus on certain site-specific technical, process development, and optimization activities to prepare Lance to become the only commercial low pH in-situ recovery (ISR) operation within the United States. In short, management believes that the domestic uranium industry needs to focus on innovative ways to economically produce uranium. Going forward, Peninsula's test programs should generate long-term value for its shareholders throughout the next year and half, as the low pH process has indicated improved production rates, as well as its cost profile.

Liquidity to support Lance. We note that the company held US$12M in cash amid zero debt as of June 30, 2020. Additionally, the company has forecast net cash margins of US$6 – 8M for CY21 based on an uranium sales contract book of 450,000 pounds. Notably, Peninsula currently has sufficient liquidity to make an investment decision in unison with the ongoing optimization efforts within a six-month period, should market conditions warrant such a step.

Preparation of license amendment applications. Peninsula is in the process of amending its license application, which currently allows for the use of oxidants and ponds, during a limited scale field demonstration, without amendments. This allows for the use of oxidants with the low pH ISR process, as well as the ponds for solids management, in future operations. However, the company can start low pH operations without process improvements as these were not included in the initial low pH amendment approvals. Until the completion of its license amendments, which management expects to occur in mid- to late-2021, Peninsula can utilize previously mined areas where oxidant is not necessary before starting production from new mining units.

Commencement of second field demonstration. Peninsula expects to continue operating a recently commenced low pH field demonstration in an unmined area of Mine Unit 1 (MU1A) over the next 12 to 18 months. We note that MU1A maintains 44,000 pounds of uranium resources, as the primary objective of the MU1A low pH field demonstration is to confirm the optimal operating conditions as indicated in laboratory studies. During the quarter, Peninsula re-mobilized a drill rig to its site following continued easing of COVID-19 restrictions. In short, this move should help complete the installation of mining and monitor wells for the MU1A demonstration. Further, MU1A wellfield preparation activities saw completion in early July, as acidification of the trial area began on August 4, 2020.

We reiterate our Buy recommendation on Peninsula Energy shares and our price target of A$0.20 per share. Our valuation remains based on a DCF of operations at the Lance Projects, utilizing an unchanged 10% discount rate. We use an average uranium sales price of $50/lb for FY23 and beyond, which remains inline with the firm's long-term contractual sales commitments. Shares of Peninsula Energy continue to trade inline with pricing of its recent transformational equity raise that occurred in June 2020, and we maintain our belief that the company represents an attractive way to participate in the domestic uranium space. This is especially true given recent market developments, such as the proposed creation of a Uranium Reserve by the Nuclear Fuel Working Group (NFWG), as well as global production curtailments caused by the ongoing spread of COVID-19, that have supported uranium spot prices. In conclusion, we highlight Peninsula's ability to restart production activities in only six months following a final investment decision, as well as management's continued ability to generate cash flow from its uranium sales contracts, which we believe should translate into future value potential for shareholders.

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

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