

Peninsula Energy (PEN)

Rating: Buy | Risk: High | Price Target: \$0.40

Early works on the Lance Project commence; on track for a Final Investment Decision 3Q22

Key Information

| | |
|-------------------------|-------------|
| Current Price (\$ps) | 0.23 |
| 12m Target Price (\$ps) | 0.40 |
| 52 Week Range (\$ps) | 0.12 - 0.34 |
| Target Price Upside (%) | 73.9% |
| TSR (%) | 73.9% |
| Reporting Currency | AUD |
| Market Cap (\$m) | 229 |
| Sector | Energy |
| Avg Daily Volume (m) | 4.3 |
| ASX 200 Weight (%) | 0.01% |

Fundamentals

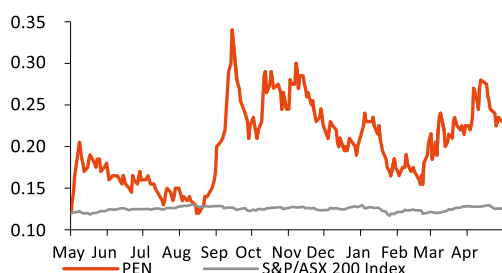
| YE 30 Jun (AUD) | FY21A | FY22E | FY23E | FY24E |
|-----------------|-------|--------|--------|-------|
| Sales (\$m) | 10 | 24 | 43 | 47 |
| NPAT (\$m) | (1) | 1 | 6 | 10 |
| EPS (cps) | (0.2) | 0.1 | 0.5 | 0.9 |
| EPS Growth (%) | 81.9% | 142.6% | 415.9% | 62.6% |
| DPS (cps) (AUD) | 0.0 | 0.0 | 0.0 | 0.0 |
| Franking (%) | 0% | 0% | 0% | 0% |

Ratios

| YE 30 Jun | FY21A | FY22E | FY23E | FY24E |
|------------------|---------|-------|-------|-------|
| P/E (x) | (68.7) | nm | 42.3 | 26.0 |
| EV/EBITDA (x) | (247.8) | 226.3 | 24.2 | 16.9 |
| Div Yield (%) | 0.0% | 0.0% | 0.0% | 0.0% |
| Payout Ratio (%) | 0.0% | 0.0% | 0.0% | 0.0% |

Price Performance

| YE 30 Jun | 1 Mth | 2 Mth | 3 Mth | 1 Yr |
|---------------|--------|-------|-------|-------|
| Relative (%) | 4.2% | 6.3% | 27.7% | 79.4% |
| Absolute (%) | 2.2% | 9.5% | 31.4% | 84.0% |
| Benchmark (%) | (2.0%) | 3.2% | 3.7% | 4.6% |



Price performance indexed to 100

Source: FactSet

Event

Peninsula Energy has commenced its early preparatory works programme at its Lance Project in Wyoming, USA. We believe the early works and completion of the recently commenced Feasibility Study Update will position the company for a Final Investment Decision 3Q22. Following this, we anticipate commissioning and ramp-up 1HCY23 and steady state by end CY23/ early CY24. Our forecasts include ~1Mlbs production in CY24 and a gradual ramp-up to ~2.5Mlb/yr by CY28.

Highlights

- In our view PEN's flagship Lance Project in Wyoming, USA, requires low upfront capital and can rapidly restart post a Final Investment Decision. PEN is the only ASX company with direct exposure to US Government initiatives which are pro-domestic mine development.
- PEN has an existing contract book and product inventory, with a binding purchase agreement netting a cash margin of US\$7.8m in CY2021 (450klbs), US\$8-9m in CY22 (450klbs) and US\$1-2m 1HCY23 (200klbs). The company has long-term sales contracts extending to 2030 for at least 3.45Mlbs (400klbs/yr) with major utilities across Europe and the US. We note there are customer option agreements totalling 1.35Mlbs through 2024-26 at 450klbs/yr which each have an exercise date 1QCY23.
- The company released a Feasibility Study (FS) in 2018 which details a Lance Project NPV₈ (pre-tax) of US\$157m and 30% IRR at an average U₃O₈ price of US\$49/lb. Our post-tax NPV₁₀ of US\$220m is higher than the DFS due to a higher long-term uranium price assumption (US\$65/lb vs DFS US\$49/lb). Key components of the FS include:
 - A life of mine (LOM) of 17 years producing an average of ~2.3mlb/yr.
 - Upfront capital expenditure of US\$6m (+US\$113m for later stage developments).
 - An estimated all-in sustaining cost (AISC) of US\$32/lb U₃O₈ over LOM.
- The company's MU1A field demonstration trial is complete and early works and a Feasibility Study Update for Lance have commenced.
 - The company is looking to switch operations from high to low pH in order to increase product yields. The results of the field demonstration (uranium average grades ~60-70ppm and peak grades ~150ppm) suggest that the targeted low-pH chemistry and field patterns are effective in dissolving and recovering uranium.
 - The company has commenced a Feasibility Study Update (FSU) to incorporate the learnings from its technical de-risking activities (i.e. MU1A Field Demonstration Trial) and build upon the 2018 Feasibility Study. We assume the FSU will be ready for issue 3Q22 in conjunction with a Final Investment Decision, commissioning and ramp-up 1HCY23 and steady state by end CY23 /early CY24 (i.e. ~1Mlbs production in CY24 and continued ramp-up in the ensuing years).
 - The company has commenced a US\$3.4m early works programme in anticipation of a Final Investment Decision on the Lance Project. The programme applies to expenditures slated prior to end FY22 and includes engineering works and development drilling.
- Strong balance sheet – the company is term debt free with an unrestricted net cash balance of US\$7m (end Mar22q, +310klbs net uranium inventory with a market value ~US\$18m). In our view PEN is fully funded to meet all ongoing study activities into CY22.

Recommendation

We maintain our Buy recommendation and there is no change to our A\$0.40ps price target (1.3x fully diluted base case valuation). We continue to like PEN for its operations being in the US, having an existing contract book, and its leverage to a uranium sector upcycle.

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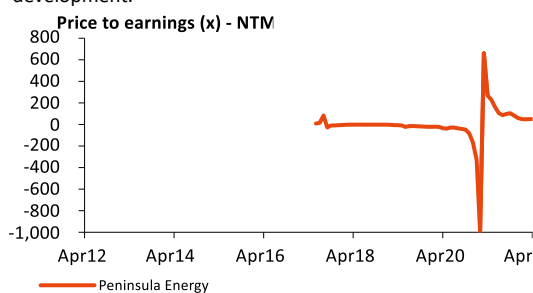
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Peninsula Energy
Energy
Energy

FactSet: PEN-AU / Bloomberg: PEN AU

| Key Items | Data |
|------------------------|-------------|
| Recommendation | BUY |
| Risk | HIGH |
| Price (\$ps) | 0.23 |
| Target Price (\$ps) | 0.40 |
| 52 Week Range (\$ps) | 0.12 - 0.34 |
| Shares on Issue (m) | 997 |
| Market Cap (\$m) | 229 |
| Enterprise Value (\$m) | 218 |
| TSR (%) | 73.9% |

Peninsula Energy is an ASX listed company that owns the Lance Uranium Project in Wyoming, USA which are in transition from an alkaline to a low pH in-situ recovery operation. The Lance Project requires low upfront capital and can rapidly restart post a Final Investment Decision. PEN is the only ASX company with direct exposure to US Government initiatives which are pro-domestic mine development.



Financial Year End: 30 June

| Investment Summary (AUD) | FY20A | FY21A | FY22E | FY23E | FY24E |
|--------------------------------------|---------|---------|---------|---------|---------|
| EPS (Reported) (cps) | (1.4) | (0.2) | 0.1 | 0.5 | 0.9 |
| EPS (Underlying) (cps) | (1.4) | (0.2) | 0.1 | 0.5 | 0.9 |
| EPS (Underlying) Growth (%) | 91.9% | 81.9% | 142.6% | 415.9% | 62.6% |
| PE (Underlying) (x) | (5.3) | (68.7) | nm | 42.3 | 26.0 |
| EV / EBIT (x) | (111.9) | (247.8) | 226.3 | 36.1 | 22.0 |
| EV / EBITDA (x) | (113.5) | (247.8) | 226.3 | 24.2 | 16.9 |
| DPS (cps) (AUD) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend Yield (%) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Franking (%) | 0% | 0% | 0% | 0% | 0% |
| Payout Ratio (%) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Free Cash Flow Yield (%) | (20.0%) | (10.9%) | 1.2% | (0.9%) | 3.1% |
| Profit and Loss (AUD) (m) | FY20A | FY21A | FY22E | FY23E | FY24E |
| Sales | 6 | 10 | 24 | 43 | 47 |
| Sales Growth (%) | (7.8%) | 60.8% | 149.7% | 74.1% | 11.7% |
| Other Operating Income | 1 | 1 | 0 | 0 | 0 |
| EBITDA | (2) | (1) | 1 | 9 | 13 |
| EBITDA Margin (%) | (31.6%) | (9.0%) | 3.9% | 21.2% | 27.1% |
| Depreciation & Amortisation | 0 | 0 | 0 | (3) | (3) |
| EBIT | (1.9) | (0.9) | 1.0 | 6.0 | 9.9 |
| EBIT Margin (%) | (32.1%) | (9.0%) | 3.9% | 14.2% | 20.8% |
| Net Interest | (4) | 0 | 0 | (0) | (0) |
| Pretax Profit | (6) | (1) | 1 | 6 | 10 |
| Minorities | 0 | 0 | 0 | 0 | 0 |
| NPAT Underlying | (6) | (1) | 1 | 6 | 10 |
| Significant Items | 1 | 1 | 0 | 0 | 0 |
| NPAT Reported | (7) | (2) | 1 | 6 | 10 |
| Cashflow (AUD) (m) | FY20A | FY21A | FY22E | FY23E | FY24E |
| EBIT | (2) | (1) | 1 | 6 | 10 |
| Tax Paid | (0) | 0 | (0) | 0 | 0 |
| Net Interest | (2) | (0) | 0 | (0) | (0) |
| Change in Working Capital | 0 | (9) | 2 | (1) | (1) |
| Depreciation & Amortisation | 0 | 0 | 0 | 3 | 3 |
| Other | (4) | (7) | 0 | 0 | 0 |
| Operating Cashflow | (8) | (17) | 3 | 8 | 12 |
| Capex | (0) | (0) | 0 | (10) | (4) |
| Acquisitions and Investments | 0 | 0 | 0 | 0 | 0 |
| Disposal of Fixed Assets/Investments | 0 | 0 | 0 | 0 | 0 |
| Other | (0) | 0 | (2) | (2) | (2) |
| Investing Cashflow | (0) | (0) | (2) | (12) | (6) |
| Free Cashflow | (8) | (17) | 3 | (2) | 8 |
| Equity Raised / Bought Back | 31 | 11 | 15 | 0 | 0 |
| Dividends Paid | 0 | 0 | 0 | 0 | 0 |
| Change in Debt | (16) | 1 | 10 | 0 | 0 |
| Other | (0) | 0 | 0 | 0 | 0 |
| Financing Cashflow | 15 | 12 | 25 | 0 | 0 |
| Exchange Rate Effect | 0 | 0 | 0 | 0 | 0 |
| Net Change in Cash | 7 | (5) | 26 | (4) | 6 |
| Balance Sheet (AUD) (m) | FY20A | FY21A | FY22E | FY23E | FY24E |
| Cash | 12 | 7 | 33 | 29 | 34 |
| Accounts Receivable | 1 | 11 | 2 | 3 | 4 |
| Inventory | 0 | 0 | 2 | 3 | 3 |
| Other Current Assets | 3 | 7 | 7 | 7 | 7 |
| PPE | 19 | 19 | 19 | 24 | 25 |
| Total Assets | 82 | 92 | 112 | 120 | 129 |
| Accounts Payable | 1 | 7 | 2 | 3 | 4 |
| Short Term Debt | 1 | 1 | 0 | 0 | 0 |
| Long Term Debt | 0 | 0 | 11 | 11 | 11 |
| Total Liabilities | 15 | 24 | 28 | 29 | 29 |
| Total Shareholder Equity | 67 | 78 | 94 | 100 | 109 |
| Ratios | FY20A | FY21A | FY22E | FY23E | FY24E |
| ROE (%) | (14.1%) | (3.2%) | 1.3% | 6.1% | 9.2% |
| Gearing (%) | (20.0%) | (8.4%) | (30.2%) | (21.5%) | (27.2%) |
| Net Debt / EBITDA (x) | 5.9 | 6.9 | (22.9) | (2.0) | (1.8) |
| Price to Book (x) | 0.9 | 2.2 | 2.7 | 2.5 | 2.3 |

Key risks

As a small mining company broadly exposed to a single commodity and a single asset we consider an investment in Peninsula Energy to be high risk. The key risks include;

- The U₃O₈ market is relatively opaque and difficult to forecast. The actual uranium price may differ substantially from our forecasts.
- Operations for PEN have not yet started and there is a risk that they may be unable to bring Lance Project to production in line with expectations. Costs may be higher and operations may not be as expected.
- Resource risks - PEN's Feasibility Study includes an assumed resource conversion of 90% for Measured and Indicated Resources, and an assumed resource conversion of 60% for Inferred Resources. The company notes there is a low level of geological confidence associated with Inferred Mineral resources (~70% of the resource base).
- PEN will need to recapitalise to fund the commencement of operations. There is a risk that capital markets are not willing to fund the project.
- Forecasting future operating costs has considerable uncertainty. Our forecasts may prove to be too optimistic. If each company's costs are higher than we expect then our cash flow forecasts will be too high.
- Smaller companies carry more significant 'key personnel' risk than larger organisations. If senior management depart it could delay projects or exacerbate operational risks.
- Safe and reliable production from operations once projects are operational. The inability to maintain safe and reliable operations may result in a sustained, unplanned interruption to production and impact the company's licence to operate and financial performance. Production facilities are subject to operating hazards associated with major accident events, cyber-attack, inclement weather and disruption to supply chain, that may result in a loss of uranium (radioactive material) containment, harm to personnel, environmental damage, diminished production, additional costs, and impacts to reputation or brand.

Core drivers and catalyst

- In our view PEN's flagship Lance Project in Wyoming, USA, requires low upfront capital and can rapidly restart post a Final Investment Decision. PEN is the only ASX company with direct exposure to US Government initiatives which are pro-domestic mine development. We have a A\$0.40ps price target which is based on a 1.3x multiple of our base case valuation.
- PEN has an existing contract book and product inventory, with a binding purchase agreement netting a cash margin of US\$7.8m in CY2021 (450klbs), US\$8-9m in CY22 (450klbs) and US\$1-2m 1HCY23 (200klbs). The company has long-term sales contracts extending to 2030 for at least 3.45Mlbs (400klbs/yr) with major utilities across Europe and the US. We note there are customer option agreements totalling 1.35Mlbs through 2024-26 at 450klbs/yr which each have an exercise date 1QCY23.
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 - The company has commenced a Feasibility Study Update (FSU) to incorporate the learnings from its technical de-risking activities (i.e. MU1A Field Demonstration Trial) and build upon the 2018 Feasibility Study. We assume the FSU will be ready for issue 3Q22 in conjunction with a Final Investment Decision, commissioning and ramp-up 1HCY23 and steady state by end CY23 /early CY24 (i.e. ~1Mlbs production in CY24 and continued ramp-up in the ensuing years).
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- Strong balance sheet – the company is term debt free with an unrestricted net cash balance of US\$7m (end Mar21q, +310klbs net uranium inventory with a market value ~US\$18m). In our view PEN is fully funded to meet all ongoing study activities into CY22.
- In our view there are two key advantages to PEN's project being located in Wyoming, USA:
 - The Powder River Basin in Wyoming is in an established uranium and mining jurisdiction (uranium mining for ~70 years and coal mining for ~150 years).
 - The company has direct exposure to the US Government uranium purchase programme and the US Nuclear Fuel Working Group.

Rating Classification

| | |
|------------------|--|
| Buy | Expected to outperform the overall market |
| Hold | Expected to perform in line with the overall market |
| Sell | Expected to underperform the overall market |
| Not Rated | Shaw has issued a factual note on the company but does not have a recommendation |

Risk Rating

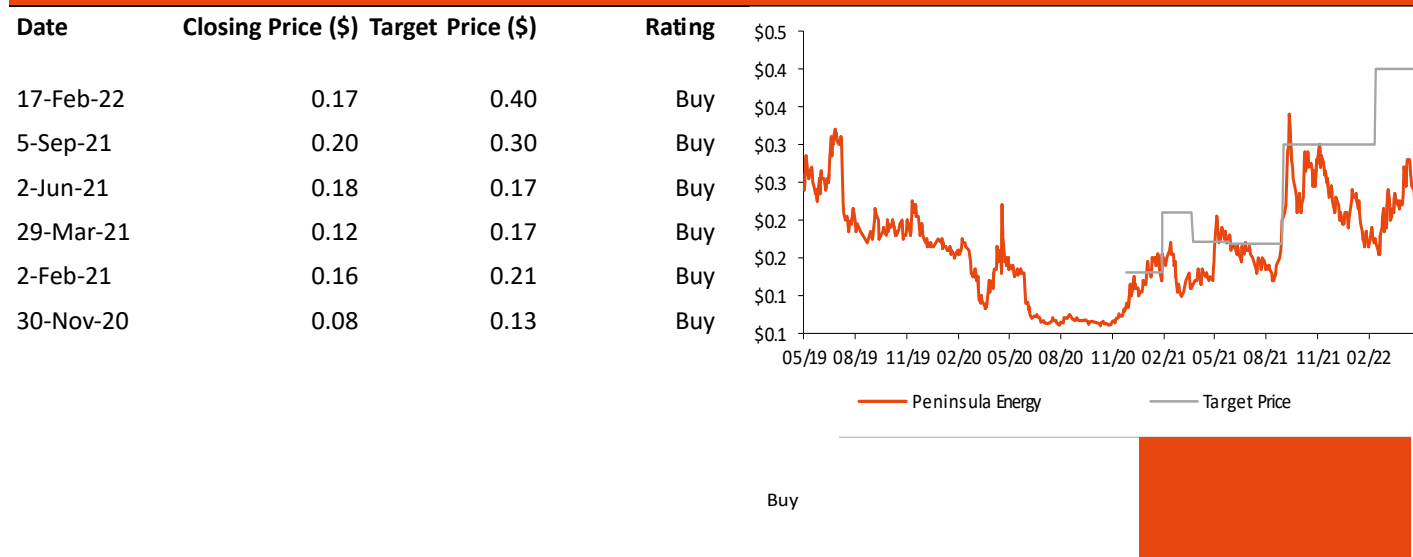
| | |
|---------------|---|
| High | Higher risk than the overall market – investors should be aware this stock may be speculative |
| Medium | Risk broadly in line with the overall market |
| Low | Lower risk than the overall market |

RISK STATEMENT: Where a company is designated as ‘High’ risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

Distribution of Investment Ratings

| Rating | Count | Recommendation Universe |
|--------|-------|-------------------------|
| Buy | 100 | 84% |
| Hold | 17 | 14% |
| Sell | 2 | 2% |

History of Investment Rating and Target Price - Peninsula Energy



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Shaw acted in a corporate capacity for PEN securities across the last 12 months for which it received fees or will receive fees for acting in this capacity. Accordingly, Shaw may have a conflict of interest which investors should consider before making an investment decision.

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