Canaccord Genuity Capital Markets

Australian Equity Research
16 August 2022

Lowering Target Price

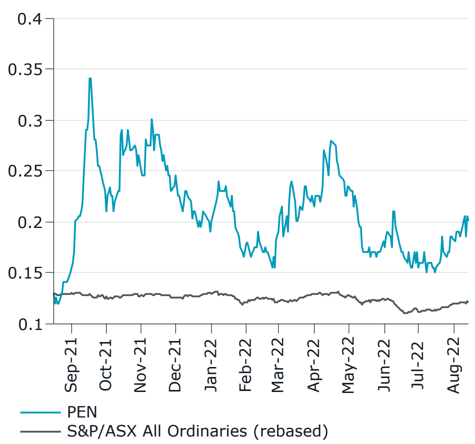
Peninsula Energy Limited
Specialty Minerals and Metals

Rating	Price Target
SPECULATIVE BUY	**A$0.40↓**
unchanged	*from A$0.43*
PEN-ASX	Price **A$0.18**

Market Data

52-Week Range (A$) :	0.12 - 0.35
Avg Daily Vol (000s) :	4
Avg Daily Vol (M) :	6.3
Market Cap (A$M) :	179.5
Shares Out. (M) :	997.3
Dividend /Shr (US$) :	0.00
Dividend Yield (%) :	0.0
Enterprise Value (A$M) :	173

FYE Jun	2021A	2022E	2023E	2024E
Sales (US$M)	9.8	12.3↑	6.0	6.0
Previous	-	*6.0*	-	-
EBITDA (US$M)	(0.9)	(6.6)↓	(4.2)↓	0.4
Previous	-	*(2.0)*	*(2.0)*	-



Source: FactSet

Priced as of close of business 15 August 2022

Peninsula Energy Limited is a uranium focused development company which is seeking to restart the Lance Uranium Projects in the Powder River Basin in Wyoming, US.

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DFS delivered: US uranium leverage being de-risked

PEN's definitive feasibility study (DFS) for the Lance Uranium Project (LUP) in many ways represents a case study in conservatism. The company has elected to focus solely on the development of the Ross and Kendrick resources and exclude the upside contained within the large Barber area (31.9Mlb of resource), which we still believe will form a large part of the PEN investment case. PEN is targeting an FID in H2 CY2022. We retain our SPEC BUY rating, but lower our price target to $0.40 (from $0.43) given the current inflationary environment and a more modest Barber resource valuation.

Key DFS outcomes as presented:

- Life-of-Mine production of 14.4Mlb U3O8.
- Gross revenue of US$895 million (2022 real).
- Steady state production rate of 2.0Mlb/annum from year 4 (down from 2.3Mlb/annum in Stage 2 for the 2018 feasibility study).
- Pre-tax Net Present Value (NPV8) of US$125 million.
- Internal Rate of Return (IRR) of 43%.
- Average forecast sales price of US$62.38/lb.
- Uncontracted production of 10.9Mlb (76% of LoM) sold at a forecast US$65.49/lb.
- All-in Sustaining Costs (AISC) of US$39.08/lb (up from US$32/lb in 2018 feasibility study primarily due to the excl of Barber).
- Direct Operating Cash Costs of US$16.34/lb (excluding restoration/reclamation).
- US$60mn investment required to achieve positive operating cash flow.

We remain more bullish about the ultimate potential of Lance

The current mine plan contemplates the extraction of only 14.4Mlb of U3O8 (65.8% recovery) vs an unchanged Greater Lance resource of 53.7Mlb. As such we believe there is significant scope for material mine life and production extensions through resource to reserve conversion. Our valuation of LUP is predicated on the extraction of 16.3Mlb over a 13-year mine life. Additionally, we value Lance using a US$75/lb LT U3O8 price.

While these assumptions are more bullish than the DFS, they are in line with our constructive uranium view (higher prices = higher extraction). We value LUP at A$0.21/share (80% risked), which equates to US$8.8/lb of resource and additionally include a pound-in-the-ground allowance of US$4.0 beyond our LUP DCF.

Funding thoughts

PEN ended the JunQ with ~US$7.6mn in cash and uncontracted inventory of 0.31Mlb. The company is currently evaluating its funding options, which could take the form of debt (likely to be a working cap facility) and equity.

Domestic US policies highly supportive of indigenous production

US U3O8 production fell to 0.021Mlb in 2021 and looks set to fall even further in 2022. We understand that PEN has submitted an offer to supply the US Department of Energy - National Nuclear Security Administration (NNSA) in response to the US government uranium tender to launch the national Uranium Reserve. The program was designed as a 10-year, $10 billion plan with $75 million authorised to date for the purchase of uranium and conversion services. Should PEN be successful it will provide a major boost to LUP.

Market conditions continue to improve

The recent approval of nuclear's inclusion in the Sustainable Taxonomy draft, the potential life extension of German reactors, Japan's push to restart four incremental reactors, the US's Inflation Reduction Act all reinforce the role nuclear could play in decarbonisation and energy security. We view this as a clear positive for our bullish uranium thesis.

For important information, please see the Important Disclosures beginning on page 5 of this document.

Figure 1: Financial summary

FY Jun 30	2020	2021	2022E	2023E	2024E
PROFIT & LOSS (US$mn)					
Revenue	6.1	9.8	12.3	6.0	6.0
Operational Costs	-1.4	0.0	0.0	0.0	0.0
Royalty	0.0	0.0	0.0	0.0	0.0
Other COGS	-4.5	-8.5	-11.6	-4.5	0.0
Other Income	0.6	0.7	1.1	1.1	1.1
Business Devt & Expl	0.0	0.0	-1.0	-2.0	-2.0
Corporate & Other	-2.7	-2.8	-7.4	-4.8	-4.8
EBITDA	**-1.9**	**-0.9**	**-6.6**	**-4.2**	**0.4**
DD&A	0.0	0.0	0.0	0.0	0.0
EBIT	**-1.9**	**-0.9**	**-6.6**	**-4.2**	**0.4**
Net Financing	-4.2	0.0	0.1	-0.1	-9.8
NPBT	**-6.2**	**-0.9**	**-6.5**	**-4.3**	**-9.4**
Tax	-1.5	-0.6	1.2	1.3	2.8
Reported NPAT	**-7.7**	**-1.6**	**-5.3**	**-3.0**	**-6.6**
Non-Controlling Interest	0.0	0.0	0.0	0.0	0.0
Sig Items, Discon Ops & Mins	0.0	0.0	0.0	0.0	0.0
Normalised NPAT	**-7.7**	**-1.6**	**-5.3**	**-3.0**	**-6.6**
Effective income tax rate	-25%	-70%	18%	30%	30%
CASHFLOW (US$mn)					
Cash receipts	7.5	3.4	25.2	6.0	6.0
Payments to suppliers	-13.9	-11.5	-25.2	-11.3	-6.8
Interest received	0.1	0.1	0.1	0.1	-1.9
Interest paid	-2.0	-0.1	0.1	-0.1	-9.8
Other	0.3	-9.2	0.8	0.0	0.0
Operating Cashflow	**-8.0**	**-17.3**	**1.0**	**-5.3**	**-12.5**
Payments for PP&E	0.0	0.0	0.0	0.0	0.0
Payments for Development	-0.2	-0.2	-1.1	-93.1	-32.9
Payments for Exploration	0.0	0.0	0.0	0.0	0.0
Asset Sales / (Purchases)	0.0	0.0	0.0	0.0	0.0
Other	0.2	0.0	-0.2	-0.2	-0.2
Investing Cashflow	**-0.1**	**-0.2**	**-1.2**	**-93.2**	**-33.0**
Share Issuance / (Buyback)	33.5	11.8	0.0	0.0	0.0
Drawdown / (Repayment) of Debt	-16.9	0.5	0.0	98.5	45.5
Dividends	0.0	0.0	0.0	0.0	0.0
Other	-1.8	-0.5	-0.1	0.0	0.0
Financing Cashflow	**14.7**	**11.9**	**-0.1**	**98.5**	**45.5**
Surplus / Defecit	6.7	-5.6	-0.3	0.0	0.0
BALANCE SHEET (US$mn)					
Current Assets	16.3	25.5	6.7	6.7	6.7
Non-Current Assets	66.0	75.9	70.6	163.7	196.5
Total Assets	**82.3**	**101.3**	**77.3**	**170.3**	**203.2**
Current Liabilities	2.5	8.8	1.0	6.0	8.2
Non-Current Liabilities	12.9	14.9	12.8	106.4	149.6
Total Liabilities	**15.4**	**23.7**	**13.8**	**112.4**	**157.8**
Net Assets	**66.9**	**77.7**	**63.4**	**58.0**	**45.4**
Total Cash	11.9	6.7	6.3	6.3	6.3
Total Debt	0.6	0.0	0.0	98.5	144.0
Net Debt	**-11.3**	**-6.7**	**-6.3**	**92.2**	**137.7**

	2020	2021	2022E	2023E	2024E
KEY ASSUMPTIONS					
Spot U3O8 (US$/lb)	30.8	32.3	52.3	63.8	73.8
A$/US$	0.69	0.70	0.73	0.73	0.73
REALISED PRICES					
U3O8 (US$/lb)	0.0	0.0	0.0	0.0	0.0
PRODUCTION FORECASTS					
U3O8 (klbs)	0.0	0.0	0.0	0.0	0.0
Total (klbs)	**0.0**	0.0	**0.0**	**0.0**	**0.0**
RESOURCES					
Lance Measured (Mlbs)	3.9				
Lance Indicated (Mlbs)	11.9				
Lance Inferred (Mlbs)	38.1				
Total (Mlbs)	**53.9**				
PER SHARE DATA					
Average Shares (Diluted, M)	328	803	954	997	997
EOP Shares (Diluted, mn)	882	996	997	997	997
Normalised EPS (US¢/sh)	-2.3	-0.2	-0.6	-0.3	-0.7
CF PS (US¢/sh)	-2.4	-2.2	0.1	-0.5	-1.3
FCF PS (US¢/sh)	-2.5	-2.2	0.0	-9.9	-4.6
RATIOS					
Dividend Yield	0%	0%	0%	0%	0%
PE	n/a	n/a	n/a	n/a	n/a
PCF (Debt Adj)	n/a	n/a	181.1	n/a	n/a
EV / EBITDA	n/a	n/a	n/a	n/a	878
Gearing (ND / ND + E)	n/a	n/a	n/a	61%	75%
Net Debt / EBITDA	5.9x	n/a	n/a	n/a	n/a
Interest Cover	-0.5x	-25.1x	0x	-76.9x	0.0x
ROE (Reported Profit / Av Equity)	n/a	n/a	n/a	n/a	n/a
ROIC	n/a	n/a	n/a	n/a	-4%
ROACE	n/a	n/a	n/a	n/a	-4%
FCF Yield	-14%	-12%	0%	-55%	-25%
DIVIDEND AND FRANKING					
Dividend (US¢/sh)	0	0	0	0	0
Payout ratio	0%	0%	0%	0%	0%
Franking Balance (US$mn)	0	0	0	0	0
VALUATION (A$)	**Risked**				
PRODUCTION ASSETS	0.02				
DEVELOPMENT ASSETS	0.21				
RESOURCES	0.12				
EXPLORATION	0.01				
EV adjustments	0.05				
TOTAL	**0.40**				
PREMIUM/(DISCOUNT)	0.0				
PRICE TARGET	**0.40**				

Source: Company reports, Canaccord Genuity estimates

DFS outcomes

PEN is primed to take advantage of a recovery in pricing and contracting via its flagship Lance development project in Wyoming. Using our long-term US$75/lb price forecast (inclusive of US$10/lb Western Premium) we expect the project to generate ~US$100mn p.a. of EBITDA at its 2.0Mlb plateau.

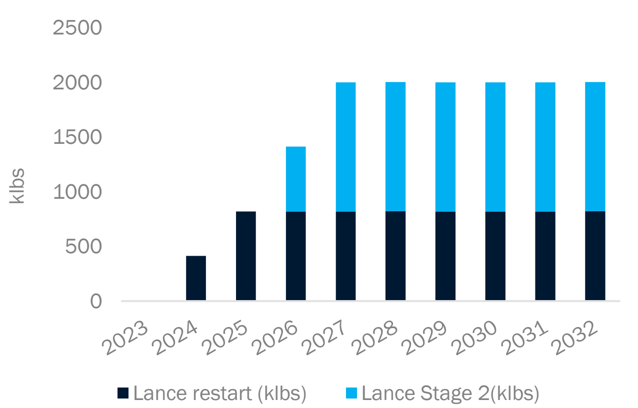
DFS summary

The DFS addresses two production areas located within the Lance Projects area – Ross and Kendrick. The JORC compliant resources in Barber, which were included in the 2018 Feasibility Study, but are not included in this DFS, are predominantly inferred resources. By removing Barber from the resource pool for this DFS, the conservatism of the has been dramatically increased, with only 42% of the resource base being in the inferred resource category.

The removal of Barber which has necessitated the removal of a 'Stage 3' increase in production to 3.0Mlb has resulted in increased AISC to US$39/lb (US$32/lb prior). Additionally, the DFS cost estimates have been prepared during a period of near record high inflation with some inputs exceeding 20% inflation since the release of the 2018 Feasibility Study.

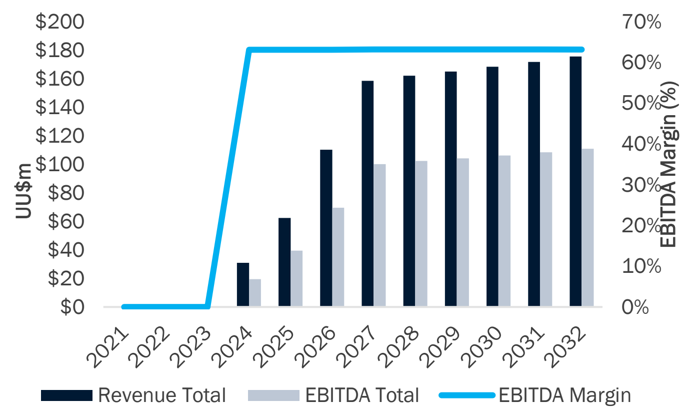
As highlighted in Figures 2 and 3 LUP has the capacity to generate project level of EBITDA ~$100mn/year when operating at 2.0Mlb. For our valuation work we have relied heavily on PEN's DFS results but have allowed for modest resource to reserve conversion (we use 16.3Mlb) which extends mine life to 13 years.

Figure 2: Production forecast



Source: Canaccord Genuity estimates

Figure 3: Revenue and EBITDA



Source: Company reports, Canaccord Genuity estimates

Figure 4: Valuation build-up

Asset	Equity %	Net Capacity klb	NPV A$mn	Risking %	Risked NPV A$mn	Risked NPV A$ps
Existing contracts pre Lance start-up			15.4	100%	15.4	0.02
PRODUCTION ASSETS		**0.00**	**15.4**	**100%**	**15.4**	**0.02**
Lance Stage 1	100%	Variable	113.5	80%	90.8	0.09
Lance Stage 2	100%	Variable	142.3	80%	113.8	0.11
DEVELOPMENT ASSETS			**255.8**		**204.7**	**0.21**
Barber Resource	100%		118.1	100%	118.1	0.12
RESOURCES			**118.1**		**118.1**	**0.12**
Other exploration					10.0	0.01
EXPLORATION					**10.0**	**0.01**
Net Debt, Balance sheet adj. & corp. overhead					**49.7**	**0.05**
Premium / (Discount)						0.00
Price Target						**0.40**

Source: Canaccord Genuity estimates

Figure 5: Valuation sensitivity to U3O8 price and forex

		Average U3O8 Prices					
AUD/USD	$/ps	US$65/lb	US$70/lb	US$75/lb	US$80/lb	US$85/lb	US$90/lb
	0.63	0.35	0.39	0.43	0.47	0.52	0.56
	0.68	0.33	0.37	0.41	0.45	0.49	0.53
	0.73	0.32	0.36	0.40	0.44	0.47	0.51
	0.78	0.32	0.35	0.39	0.42	0.46	0.49
	0.83	0.31	0.34	0.37	0.41	0.44	0.47
	0.88	0.30	0.33	0.36	0.39	0.43	0.46

Source: Canaccord Genuity estimates

Appendix: Important Disclosures

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Investment Recommendation

Date and time of first dissemination: August 15, 2022, 16:30 ET

Date and time of production: August 15, 2022, 05:06 ET

Target Price / Valuation Methodology:

Peninsula Energy Limited - PEN

Our target price is derived from a DCF-based sum of the parts valuation, comprising our $NPV8_{\%}$ of the staged Lance project, a nominal value for exploration, and net cash.

Risks to achieving Target Price / Valuation:

Peninsula Energy Limited - PEN

Financing risks: Our analysis suggests that PEN will require additional capital to fund the development costs for the Lance project for which we have risked our valuation. PEN is reliant on equity/debt/external capital to fund capital commitments, and there is no guarantee that accessing these markets will be achieved without dilution to shareholders.

Furthermore, accurate estimates of capital costs for the project remain subject to completion of pre-feasibility and feasibility studies, which may see capital requirements exceed our model assumptions. There is no guarantee that studies will result in a positive investment decision for the project.

Operational risks: Once in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical (noting flowsheet changes to address previous challenges), geological and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets and negatively impact valuation.

Further, the yellow cake product specifications may differ from initial test work interpretations which can also materially impact product acceptance by customers and therefore earnings from forecast production.

Implementation risks: We note the compressed development schedule will require concurrent plant commissioning of Stage 1 followed soon after by the installation of Stage 2 equipment and then Stage 3. This sequence presents a natural risk that delays in Stage 1 could impact Stage 2 and therefore Stage 3 which present downside risk to our cash flow projections.

Market risks: PEN's sales revenue is dependent on being able to secure term contracts for its proposed level of production and priced with the required mechanisms that will enable proactive capital and budgetary management. We note the protracted nature of negotiating uranium product offtake with the potential that timelines could be prolonged to ensure than an acceptable order book is agreed on.

Commodity price and currency fluctuation: The company as a near-term uranium producer is exposed to commodity price and currency fluctuations, often driven by macro-economic forces including inflationary pressure, interest rates and supply and demand of commodities. These factors are external and could reduce the profitability, costing and prospective outlook for the business.

Geological and resource risk: The actual characteristics of a mineral deposit may differ significantly from initial interpretations and expectations. PEN's plan incorporates Mineral Resources whose actual economics are yet to be determined. Grades and tonnages for Exploration Targets are conceptual in nature.

Distribution of Ratings:

Global Stock Ratings (as of 08/15/22)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	636	67.02%	35.22%
Hold	134	14.12%	15.67%
Sell	12	1.26%	16.67%
Speculative Buy	160	16.86%	38.75%
	949*	100.0%	

*Total includes stocks that are Under Review

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SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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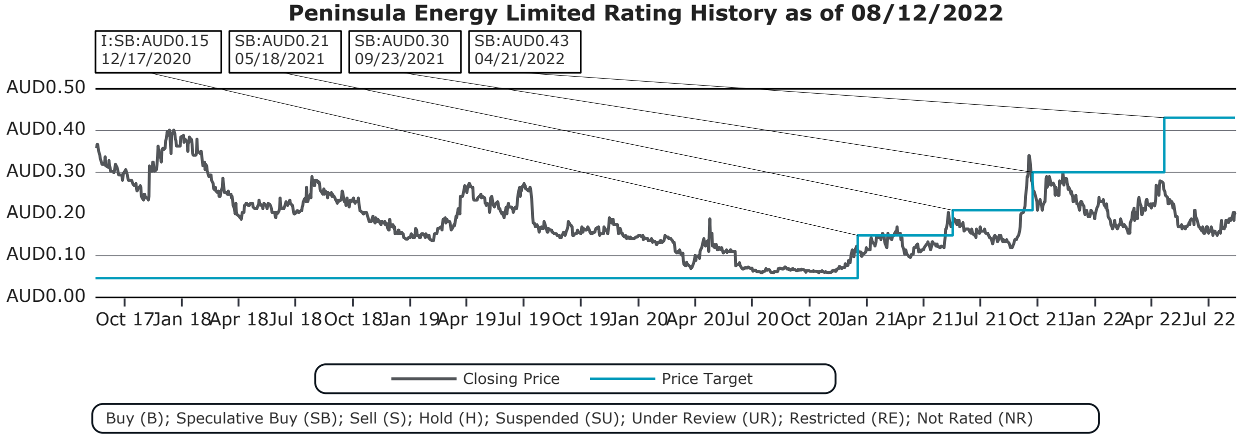
Peninsula Energy Limited Rating History as of 08/12/2022



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