ShawandPartners
Financial Services

Peninsula Energy (PEN)

Rating: Buy | Risk: High | Price Target: $0.34

27 June 2023

Lance Projects – the first uranium restart in production

Key Information

Current Price ($ps)	0.17
12m Target Price ($ps)	0.34
52 Week Range ($ps)	0.12 - 0.21
Target Price Upside (%)	99.5%
TSR (%)	99.5%
Reporting Currency	USD
Market Cap ($m)	214
Sector	Energy
Avg Daily Volume (m)	2.2
ASX 200 Weight (%)	0.01%

Fundamentals

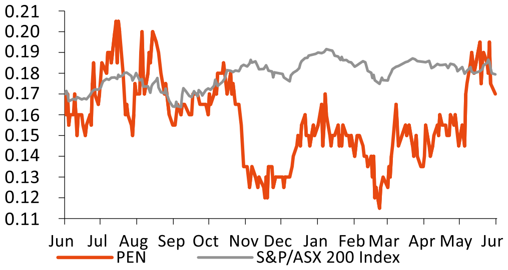
YE 30 Jun (USD)	FY22A	FY23E	FY24E	FY25E
Sales ($m)	18	40	38	63
NPAT ($m)	(6)	(8)	(5)	8
EPS (cps)	(0.4)	(0.7)	(0.4)	0.5
EPS Growth (%)	(64.3%)	(68.2%)	42.7%	237.4%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

Ratios

YE 30 Jun	FY22A	FY23E	FY24E	FY25E
P/E (x)	(26.2)	(16.6)	(29.0)	21.1
EV/EBITDA (x)	(22.5)	(97.5)	(695.3)	8.6
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 (%)	18.3%	24.3%	34.3%	(5.6%)
Absolute (%)	17.2%	21.4%	36.0%	0.0%
Benchmark (%)	(1.1%)	(2.9%)	1.7%	5.6%



Price performance indexed to 100 *Source: FactSet*

Major Shareholders

Paradice Investment Management	8.8%

Event

Peninsula Energy is returning the Lance Uranium Project in Wyoming, USA to production. This will be the first of the ASX listed uranium restarts to reach commercial production, ahead of Boss, Paladin and Lotus. Lance is expected to commence first production in mid-2023 with first sales in 4Q23. Peninsula is a beneficiary of having its producing assets in the USA and is already delivering uranium into the US strategic reserve. Plans to ban Russian imports of uranium to the US will increase the strategic value of Lance.

Highlights

- Construction of PEN's flagship Lance Projects in Wyoming, USA, has commenced and work streams are on schedule for a production restart in mid-2023. Peninsula is the only ASX company with direct exposure to US Government initiatives which are pro-domestic mine development. Peninsula delivered 300klbs to the US government in Mar-23.
- 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) and >US$9m in CY22 (450klbs). The company has long-term sales contracts extending to 2033, up to 5.25Mlbs at US$56-58/lb U_3O_8 with major utilities across Europe and the US.
- A bill known as the 'Reduce Russian Uranium Imports Act' is making its way through the US legislative process. The bill proposes banning US imports of Russian sourced uranium. The bill passed 18-12 in a House subcommittee in the US House of Representatives on 16 May 2023 and has advanced in the Senate by being approved by the Energy and Natural Resources panel. The bill now needs to go to the Senate floor, and if approved then be signed into law by President Joe Biden. The bill is receiving strong bipartisan support. Russia accounts for about 20% of US uranium imports so banning Russian supply will increase the strategic value of Peninsula's assets.
- Peninsula is switching operations from high to low pH in order to increase product yields. The results of an 18-month field demonstration indicated that the targeted low-pH chemistry and field patterns are effective in dissolving and recovering uranium.
- After some initial delays in receiving some long lead-time items construction is now progressing well. Pre-production circulating flows have been established in MU-1 at a rate of approximately 500 gallons per minute. This flowrate was increased through May and June in preparation for first production in mid-23. The well patterns are being pre-acidified but no flow is being directed to the process plant whilst it is being modified.
- Peninsula released a DFS in August 2022 and our modelling is based on that DFS. The DFS outlined a simple, two-stage, ramp-up to 2Mlbs/yr, with production sourced from the Ross and Kendrick areas of Lance Projects.
- Peninsula is well capitalised for the restart of Stage 1 with US$26m of cash at 31-Mar-23. Stage 1 will lift production to 0.82 Mlb's of production per annum for a total cost of US$24.7m which includes US$8.4m up front and US$16.3m on the well field over 2.5yrs.
- Stage 2 will take production to 2Mlb/yr and will require additional investment of US$70m. Peninsula's peak funding requirement to cash flow positive is ~US$60m.
- Peninsula has significant growth options beyond Stage 2 which is only based on the reserves in the Ross and Kendrick locations. The Berber area hosts an Inferred Resource of 31.9Mlb and is likely to form the basis of a Stage 3 expansion.

Recommendation

We maintain our Buy recommendation and price target of A$0.34ps, set at 1.3x our fully diluted valuation of A$0.26ps.

We 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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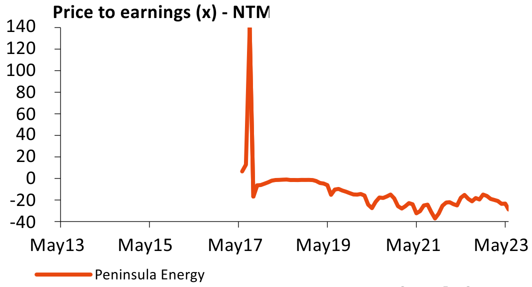
Peninsula Energy
Energy
Energy
FactSet: PEN-AU / Bloomberg: PEN AU

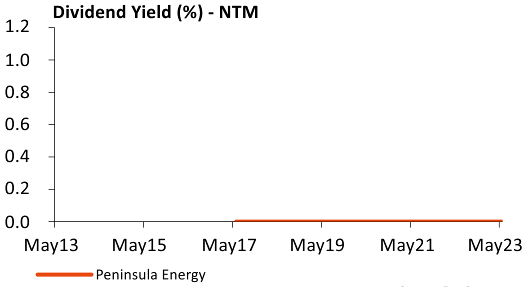
Key Items	Data
Recommendation	BUY
Risk	HIGH
Price ($ps)	0.17
Target Price ($ps)	0.34
52 Week Range ($ps)	0.12 - 0.21
Shares on Issue (m)	1,257
Market Cap ($m)	214
Enterprise Value ($m)	197
TSR (%)	99.5%

Company Description

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.



Source: FactSet



Source: FactSet

Financial Year End: 30 June

Investment Summary (USD)	FY21A	FY22A	FY23E	FY24E	FY25E
EPS (Reported) (cps)	**(0.2)**	**(0.4)**	**(0.7)**	**(0.4)**	**0.5**
EPS (Underlying) (cps)	**(0.2)**	**(0.4)**	**(0.7)**	**(0.4)**	**0.5**
EPS (Underlying) Growth (%)	81.9%	(64.3%)	(68.2%)	42.7%	237.4%
PE (Underlying) (x)	**(51.6)**	**(26.2)**	**(16.6)**	**(29.0)**	**21.1**
EV / EBIT (x)	**(149.3)**	**(22.5)**	**(16.8)**	**(22.4)**	**16.3**
EV / EBITDA (x)	**(149.3)**	**(22.5)**	**(97.5)**	**(695.3)**	**8.6**
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 (%)	(14.6%)	1.0%	(3.9%)	(25.0%)	(22.5%)

Profit and Loss (USD) (m)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	10	18	40	38	63
Sales Growth (%)	*60.8%*	*87.2%*	*116.2%*	*(4.3%)*	*66.2%*
Other Operating Income	1	1	1	1	1
EBITDA	**(1)**	**(6)**	**(1)**	**(0)**	**15**
EBITDA Margin (%)	*(9.0%)*	*(31.9%)*	*(3.4%)*	*(0.5%)*	*24.2%*
Depreciation & Amortisation	0	0	(6)	(6)	(7)
EBIT	**(0.9)**	**(5.8)**	**(7.8)**	**(5.9)**	**8.1**
EBIT Margin (%)	*(9.0%)*	*(31.9%)*	*(19.8%)*	*(15.5%)*	*12.8%*
Net Interest	0	0	0	0	0
Pretax Profit	(1)	(6)	(8)	(5)	8
Minorities	0	0	0	0	0
NPAT Underlying	**(1)**	**(6)**	**(8)**	**(5)**	**8**
Significant Items	1	(1)	0	0	0
NPAT Reported	**(2)**	**(5)**	**(8)**	**(5)**	**8**

Cashflow (USD) (m)	FY21A	FY22A	FY23E	FY24E	FY25E
EBIT	(1)	(6)	(8)	(6)	8
Tax Paid	0	0	1	0	0
Net Interest	(0)	0	0	0	0
Change in Working Capital	(9)	0	5	5	0
Depreciation & Amortisation	0	0	6	6	7
Other	(7)	8	0	0	0
Operating Cashflow	**(17)**	**2**	**5**	**5**	**15**
Capex	(0)	(1)	(10)	(44)	(54)
Acquisitions and Investments	0	0	0	0	0
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	0	0	0	0	0
Investing Cashflow	**(0)**	**(1)**	**(10)**	**(44)**	**(54)**
Free Cashflow	**(17)**	**1**	**(5)**	**(39)**	**(38)**
Equity Raised / Bought Back	11	0	22	30	0
Dividends Paid	0	0	0	0	0
Change in Debt	1	0	0	10	25
Other	0	(0)	0	0	0
Financing Cashflow	**12**	**(0)**	**22**	**40**	**25**
Exchange Rate Effect	0	(0)	0	0	0
Net Change in Cash	**(5)**	**1**	**17**	**1**	**(13)**

Balance Sheet (USD) (m)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	7	8	25	26	12
Accounts Receivable	11	1	0	0	0
Inventory	0	15	10	5	5
Other Current Assets	7	6	6	6	6
PPE	19	19	21	55	96
Total Assets	**92**	**88**	**103**	**137**	**170**
Accounts Payable	7	1	0	0	0
Short Term Debt	1	0	0	0	0
Long Term Debt	0	0	0	10	35
Total Liabilities	**24**	**15**	**15**	**25**	**50**
Total Shareholder Equity	**78**	**73**	**88**	**112**	**121**

Ratios	FY21A	FY22A	FY23E	FY24E	FY25E
ROE (%)	(3.2%)	(5.3%)	(9.4%)	(5.3%)	6.9%
Gearing (%)	(8.4%)	(11.3%)	(38.4%)	(15.9%)	15.8%
Net Debt / EBITDA (x)	6.9	1.3	18.3	82.5	1.5
Price to Book (x)	1.6	1.4	1.6	1.5	1.4

Lance Projects overview

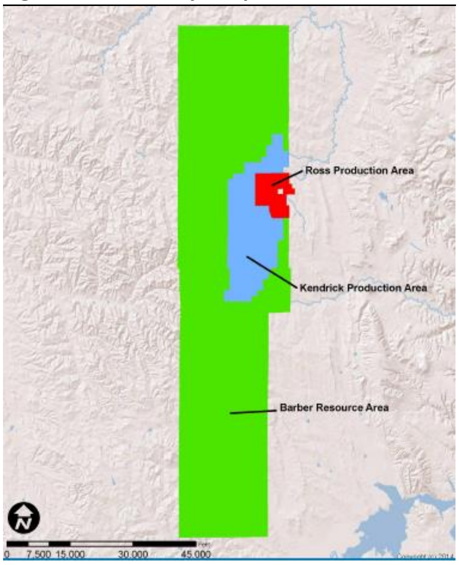
The Lance Projects, broken into the Ross, the Kendrick and the Barber deposits (Figure 1), are located on the north-east flank of the Powder River Basin in Wyoming. They are a series of in situ recovery (ISR) deposits.

In-situ leach mining operations are for sandstone-hosted uranium deposits located below the water table in a confined aquifer. The uranium is dissolved in acid or alkali injected into and recovered from the aquifer by means of wells. In 2019 approximately 57% of global uranium production was via in-situ leach operations (vs 2000 15%). The increase over the past 20 years is largely due to the rise of Kazakh in-situ production (43% of 2019 production).

Lance started producing from the Ross unit in December 2015. Alkaline based operations were idled in July 2019 after ~350klbs U_3O_8 had been mined - the company had ongoing difficulties in maximising recoveries.

Since then, PEN has focused its efforts on a transition to low pH operations, which have the potential to recover a higher percentage of uranium. Low pH recoveries are typically in the range of 70-90% vs 60-70% for alkali. The 2022 Ross and Kendrick DFS study conservatively assumes a 66% Resource recovery.

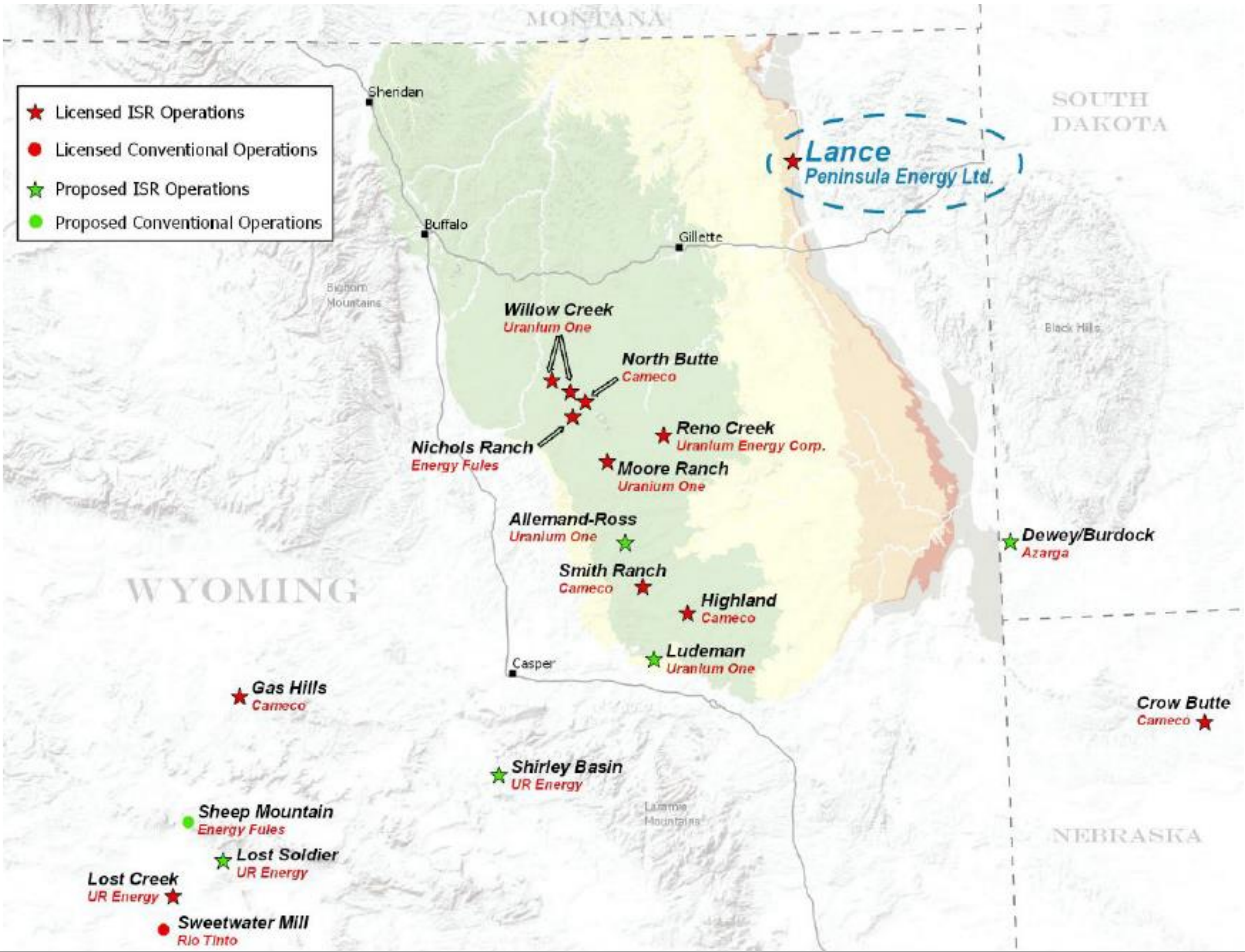
Figure 1: Lance Projects production areas



Source: Company reports, Shaw analysis

Figure 2: Powder River Basin, Wyoming, USA

The Powder River Basin in Wyoming, USA was discovered to host uranium in 1951. Deposits were found along a 60-mile trend, and a total of 190Mlbs of U_3O_8 has been produced from this region since first production in 1953.



Source: Company reports

Lance Projects Mineral Resource and technical updates

The 2022 DFS incorporates operational parameters observed in the MU1A Low-pH Field Demonstration, which took place between Sep-20q and Dec-21q. The DFS includes updated:

- Uranium grade and recovery curves (more conservative),
- ISR/well pattern design parameters (slightly narrower spacing), and
- process designs and reagent requirement models i.e.
    - Rates of acidification/ consumption - slightly less sulphuric acid consumption.
    - Strength of oxidants required - hydrogen peroxide used instead of gaseous oxygen.

Figure 3: The Ross Process Plant at the Lance Projects, Wyoming USA

Source: Company reports

Figure 4: Lance Projects Mineral Resource, cut-off 200ppm U_3O_8

The first 5 years of production of PEN's Ross and Kendrick DFS can be sourced almost entirely from Measured and Indicated Resources. We note there is an assumed overall resource recovery of 66% and a resource conversion of 61% to convert the Ross and Kendrick Area Inferred resources to Indicated or greater quality.

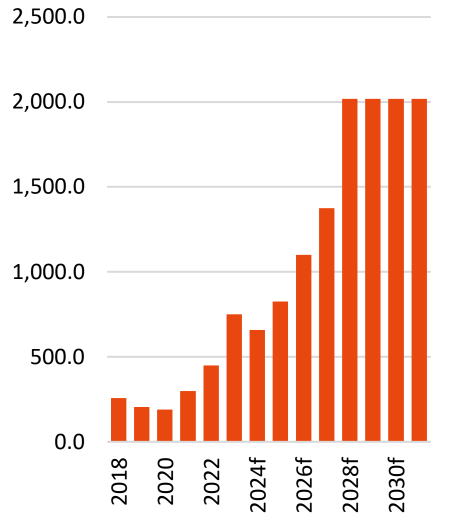
There is a low level of geological confidence associated with Inferred Mineral resources, which is mostly comprised of the Barber Resource (~70% of the resource base). The Barber Resource is not included in the 2022 DFS. We note Exploration upside in the area was previously assessed to be 50-150Mlbs (2015).

Classification	Tonnes (million)	U3O8(kg)	Grade (ppm U3O8)	U3O8(lbs)
Measured	3.4	1.7	489	3.7
Indicated	11.1	5.5	496	12.1
Inferred	36.2	17.2	474	37.8
Total	**50.7**	**24.4**	**480**	**53.6**

Project Area	Commence Production	Estimated Resources (lbs U_3O_8) (1)	Estimated Production (lbs U_3O_8) (2)
Ross	Year 0	5,882,000	4,104,000
Kendrick	Year 2	15,930,000	10,247,000
DFS Area	**Sub-Total**	**21,812,000**	**14,351,000**
Barber Resource(3)	N/A	31,859,000	N/A
Lance Projects	**Total**	**53,672,000**	**N/A**

Source: Company reports

Figure 5: Lance U_3O_8 Sales (Mlbs)



Source: Company reports, Shaw analysis

Lance Projects financial model

Our model of Lance Projects is broadly in line with the company's DFS assumptions. Key assumptions in our model include:

- An estimated LOM production of 16Mbls over 14 years.
- Stage 1 production of 0.8Mlbs/yr (end CY23) and a second stage production at steady state from year 4 (FY28) of 2Mlbs.
- All-in Sustaining Cash Costs (AISC) of US$39/lb and All-in-Costs (AIC) of US$46/lb.
- Life-of-Mine Capex of US$290m, comprised of:
  - Stage 1 Upfront Capex of US$9m and Stage 2 Upfront Capex of US$70m.
  - Stage 1 Sustaining Capex of US$16m and Stage 2 Sustaining Capex of US$195m.
- Restoration costs of US$50m.
- Exploration/ Resource upside of US$3/lb for the Barber Resource (~32Mlbs, not the full >150Mlbs resource potential). This is in line with the modelling methodology we use for PEN's peers.
- We assume a multi-year price spike at US$85/lb) before settling to our long-term U_3O_8 realised price assumption of US$67/lb (2023 Real) in 2028.

On our analysis the Lance Projects is NPV positive at an average weighted U_3O_8 price of US$53/lb. Using our base case U_3O_8 deck, the project has a post-tax NPV_{10} of US$151m.

Figure 6: Lance financial model (US$m)

Lance (US$m)	2020	2021	2022	2023f	2024f	2025f	2026f	2027f	2028f	2029f	2030f	2031f	2032f
U3O8 (Mlb) - produced	31	0	0	0	459	825	1,100	1,376	2,017	2,017	2,017	2,017	1,651
U3O8 (Mlb) - sold	191	300	450	750	659	825	1,100	1,376	2,017	2,017	2,017	2,017	1,651
Revenue	7	12	24	40	38	63	88	110	161	158	153	167	140
Expenses	4	10	15	32	29	38	52	44	65	65	66	68	57
EBITDA	4	2	8	8	9	25	36	66	96	93	88	99	83
D&A	0	0	0	6	6	7	10	12	17	17	17	17	14
EBIT	4	2	8	1	3	18	26	54	79	76	70	82	69
Net Operating Assets	66	66	66	69	108	155	157	160	165	174	184	194	203
Capex	0	0	0	10	44	54	12	15	22	27	27	28	24
EBITDA Margin (%)	51%	19%	35%	20%	24%	39%	41%	60%	60%	59%	57%	59%	59%
EBIT / Assets (%)	6%	4%	13%	2%	3%	11%	17%	34%	48%	44%	38%	42%	34%
Spot U3O8 (US$/lb)	28	31	46	53	63	81	85	85	85	84	81	83	85
AUD/USD	0.67	0.75	0.72	0.68	0.72	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74
Revenue (US$/lb)	39	41	53	53	58	76	80	80	80	79	76	83	85
Expenses (US$/lb)	19	33	34	42	44	46	47	32	32	32	33	34	34
EBITDA (US$/lb)	20	8	19	10	14	30	33	48	48	46	43	49	50
D&A (US$/lb)	0	0	0	9	9	9	9	9	9	9	9	9	9
EBIT (US$/lb)	20	8	19	2	5	21	24	39	39	38	35	40	42
Nominal Tax @ 21%	0	0	0	0	0	0	0	0	0	-23	-21	-25	-21
Cash Flow	4	2	8	-2	-35	-29	24	51	74	44	39	47	39

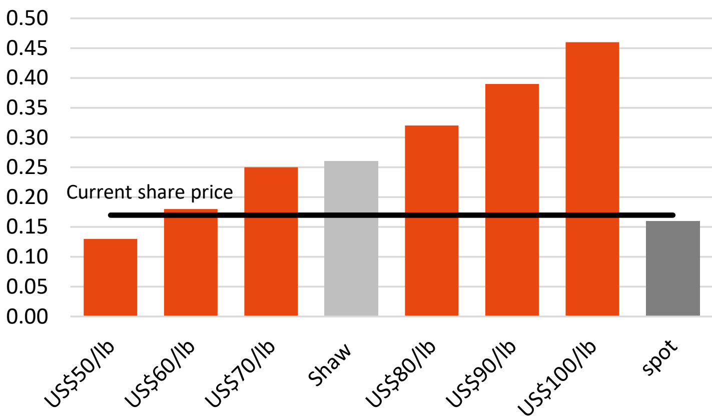
Source: Company reports, Shaw analysis

Figure 7: PEN valuation (fully diluted)

Peninsula Energy Valuation - diluted	US$m	A$m	A$ps
Lance	141	195	0.13
Net cash / (debt)	26	36	0.02
Exploration upside	96	133	0.09
Cash from FY24 raising	30	42	0.03
Corporate costs	-11	-15	-0.01
Total Valuation	**282**	**391**	**0.26**
Target price (1.3x diluted valuation)			**0.34**

Source: Company reports, Shaw and Partners analysis

Figure 8: PEN valuation sensitivity (A$ps)



Source: Company reports, Shaw and Partners analysis

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 U_3O_8 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 Projects to production in line with expectations. Costs may be higher and operations may not be as expected.
- Resource risks - PEN's 2022 Ross and Kendrick DFS assumes an overall resource recovery of 66% and a resource conversion of 61% to convert the Ross and Kendrick Area Inferred resources to Indicated or greater quality.
- 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

- PEN's flagship Lance Projects in Wyoming, USA, requires low upfront capital and can rapidly restart. PEN is the only ASX company with direct exposure to US Government initiatives which are pro-domestic mine development. We have a A$0.34ps 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) and >US$9m in CY22 (450klbs). The company has long-term sales contracts extending to 2033, up to 5.25Mlbs at US$56-58/lb U_3O_8 with major utilities across Europe and the US.
- The company is switching operations from high to low pH in order to increase product yields. The results of an 18-month field demonstration indicated that the targeted low-pH chemistry and field patterns are effective in dissolving and recovering uranium.
- The company released a Definitive Feasibility Study in Aug22 which details a Lance Projects NPV_8 (pre-tax) of US$125m and 43% IRR at an average U_3O_8 price of US$62/lb. Other components include:
    - a life of mine (LOM) of 14 years with a plateau production of 2.0Mlbs/yr,
    - upfront capital expenditure of ~US$80m (US$9m for Stage 1 and US$70m for Stage 2), and
    - an estimated All-in Cost (AIC) of US$46/lb U_3O_8 over LOM.
- 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 program 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

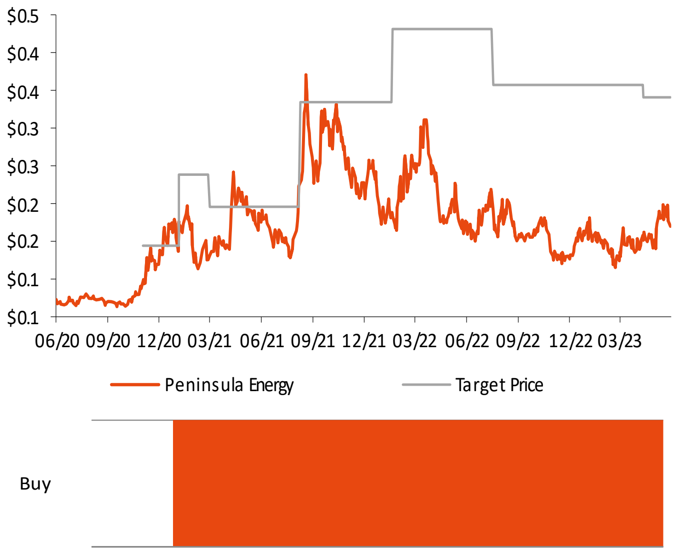
RISK STATEMENT: Where a company is designated as 'High' risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its 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	101	89%
Hold	11	10%
Sell	1	1%

History of Investment Rating and Target Price - Peninsula Energy

Date	Closing Price ($)	Target Price ($)	Rating
27-Jun-23	0.17	0.34	Buy
9-May-23	0.15	0.34	Buy
15-Aug-22	0.18	0.34	Buy
17-Feb-22	0.17	0.40	Buy
5-Sep-21	0.20	0.30	Buy
2-Jun-21	0.18	0.17	Buy
29-Mar-21	0.12	0.17	Buy
2-Feb-21	0.16	0.21	Buy
30-Nov-20	0.08	0.13	Buy



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