Peninsula Energy (PEN)

Rating: Buy | Risk: High | Price Target: $0.27

31 August 2023

Lance project revamp – Peninsula cheap compared to Uranium Energy Corp.

Key Information

Current Price ($ps)	0.09
12m Target Price ($ps)	0.27
52 Week Range ($ps)	0.09 - 0.20
Target Price Upside (%)	191.7%
TSR (%)	191.7%
Reporting Currency	USD
Market Cap ($m)	114
Sector	Energy
Avg Daily Volume (m)	10.3
ASX 200 Weight (%)	0.01%

Fundamentals

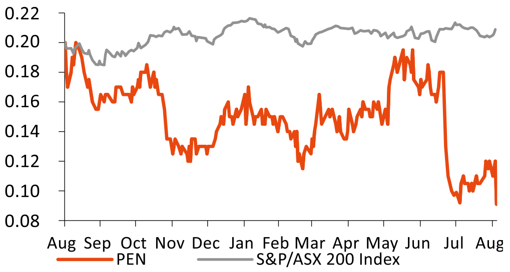
YE 30 Jun (USD)	FY22A	FY23E	FY24E	FY25E
Sales ($m)	18	38	12	38
NPAT ($m)	(6)	(3)	(6)	(9)
EPS (cps)	(0.4)	(0.2)	(0.4)	(0.4)
EPS Growth (%)	(64.3%)	40.4%	(55.0%)	(18.1%)
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

Ratios

YE 30 Jun	FY22A	FY23E	FY24E	FY25E
P/E (x)	(26.2)	(24.4)	(15.7)	(13.3)
EV/EBITDA (x)	(10.8)	(21.9)	(9.4)	(12.0)
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 (%)	0.4%	(47.8%)	(40.1%)	(59.0%)
Absolute (%)	(1.1%)	(46.5%)	(37.2%)	(54.5%)
Benchmark (%)	(1.5%)	1.3%	2.9%	4.5%



Price performance indexed to 100 *Source: FactSet*

Major Shareholders

Paradice Investment Management	8.8%

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Event

Peninsula has released details of the revamped Lance Uranium Project in Wyoming, USA. The financial parameters are similar to our forecasts which were revised post the decision of Uranium Energy Corporation (UEC) to cancel its contract to process the uranium bearing resin from Lance. Operating costs have been revised about US$3/lb higher to US$42/lb (AISC) and peak production of 1.8Mlb is lower than our 2Mlb forecast. The stock has understandably negatively reacted to the increased US$95m peak funding requirement (down 24% today), but this leaves Peninsula trading at excessive discounts to its peers and vulnerable to M&A. We compare Peninsula to UEC – it is now trading at just 10% the market valuation of UEC on an EV/production basis.

Highlights

- Lance is an In-Situ Recovery (ISR) uranium project whereby uranium is leached from the orebody in an acid solution before being recovered in an ion-exchange resin. Stage 1 of the Lance Uranium Project was about to enter first commercial production in July when UEC cancelled its contract to process the uranium bearing resin from Lance. Peninsula has had to adjust its plans to accelerate its stage 2 expansion and incorporate its own resin processing into the processing plant.
- Peninsula has today released details of the revised processing plan which includes:
  - First production in Dec-25 and ramping up to 1.8Mlb steady state by 2029.
  - Remaining capex to first production of US$53.4m, with a further US$17.4m required to reach full production rates. The peak funding requirement to get to breakeven cash flow has been revised up to US$95m from US$60m – we estimated US$85m.
  - C1 operating costs have been revised up from US$16.34/lb to US$21.69/lb with the AISC up from US$39.08/lb to US$42.46/lb.
- Given that UEC was the company that cancelled the resin contract, it is interesting to compare and contrast the valuations of the two companies. UEC has a market capitalisation of US$1.65b, cash of US$124m and a uranium inventory worth US$44m. It has two ISR processing hubs in the USA – Irigaray with capacity of 2.5Mlb/r (the plant that Lance was using), and Hobson with capacity of 4Mlb/yr. UEC is at a similar stage to Peninsula with plans to ramp up production over coming years. UEC is trading at an enterprise valuation of US$228/klb of installed capacity whereas Peninsula is trading at just US$23/klb of capacity. Both companies have other resources which are many years from production. UEC could acquire Peninsula and add ~50% to its planned capacity for a price of just 10% of its current enterprise valuation.
- We have made further changes to our forecasts post today's update. Costs are higher but the ramp-up in FY26 is quicker than we were previously modelling.
- We now assume that the US$95m in additional funding will be sourced from a US$35m debt package and a US$60m equity raise (previously US$50m). Our valuation reduces to A$0.20ps from A$0.24ps with the additional dilution. Our valuation of the Lance project is unchanged at US$135m. Our price target of A$0.27 remains set at a 30% premium to our DCF, in-line with our uranium sector coverage.

Revisions	2023f			2024f			2025f			2026f		
	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %
Revenue (A$m)	38	38	0%	12	15	-20%	38	28	36%	104	73	42%
EBITDA (A$m)	-3	-2	n/a	-7	-6	n/a	-5	1	n/a	46	20	130%
EBIT (A$m)	-3	-9	n/a	-7	-8	n/a	-10	-2	n/a	33	12	181%
NPAT (A$m)	-3	-9	n/a	-6	-8	n/a	-9	-1	n/a	32	10	204%

Recommendation

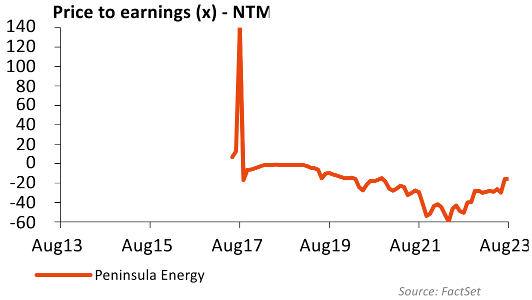
We retain our Buy recommendation but reduce our price target from A$0.31 to A$0.27ps.

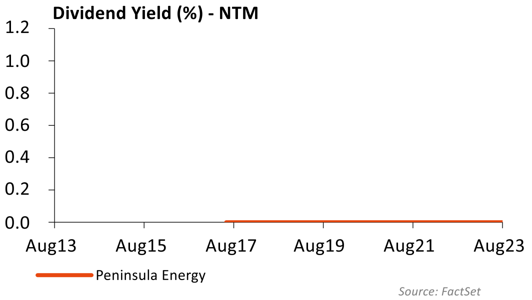
Peninsula Energy
Energy
Energy
FactSet: PEN-AU / Bloomberg: PEN AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price ($ps)	0.09
Target Price ($ps)	0.27
52 Week Range ($ps)	0.09 - 0.20
Shares on Issue (m)	1,257
Market Cap ($m)	114
Enterprise Value ($m)	98
TSR (%)	191.7%

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.





Financial Year End: 30 June

Investment Summary (USD)	FY21A	FY22A	FY23E	FY24E	FY25E
EPS (Reported) (cps)	**(0.2)**	**(0.4)**	**(0.2)**	**(0.4)**	**(0.4)**
EPS (Underlying) (cps)	**(0.2)**	**(0.4)**	**(0.2)**	**(0.4)**	**(0.4)**
EPS (Underlying) Growth (%)	81.9%	(64.3%)	40.4%	(55.0%)	(18.1%)
PE (Underlying) (x)	**(51.6)**	**(26.2)**	**(24.4)**	**(15.7)**	**(13.3)**
EV / EBIT (x)	**(71.6)**	**(10.8)**	**(21.9)**	**(9.4)**	**(6.1)**
EV / EBITDA (x)	**(71.6)**	**(10.8)**	**(21.9)**	**(9.4)**	**(12.0)**
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%	(12.8%)	(33.5%)	(50.4%)

Profit and Loss (USD) (m)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	10	18	38	12	38
Sales Growth (%)	*60.8%*	*87.2%*	*110.3%*	*(69.9%)*	*228.7%*
Other Operating Income	1	1	1	1	1
EBITDA	**(1)**	**(6)**	**(3)**	**(7)**	**(5)**
EBITDA Margin (%)	*(9.0%)*	*(31.9%)*	*(7.5%)*	*(57.9%)*	*(13.7%)*
Depreciation & Amortisation	0	0	0	0	(5)
EBIT	**(0.9)**	**(5.8)**	**(2.9)**	**(6.7)**	**(10.3)**
EBIT Margin (%)	*(9.0%)*	*(31.9%)*	*(7.5%)*	*(57.9%)*	*(27.0%)*
Net Interest	0	0	0	0	1
Pretax Profit	(1)	(6)	(3)	(6)	(9)
Minorities	0	0	0	0	0
NPAT Underlying	**(1)**	**(6)**	**(3)**	**(6)**	**(9)**
Significant Items	1	(1)	0	0	0
NPAT Reported	**(2)**	**(5)**	**(3)**	**(6)**	**(9)**

Cashflow (USD) (m)	FY21A	FY22A	FY23E	FY24E	FY25E
EBIT	(1)	(6)	(3)	(7)	(10)
Tax Paid	0	0	1	0	0
Net Interest	(0)	0	0	0	1
Change in Working Capital	(9)	0	3	(2)	(6)
Depreciation & Amortisation	0	0	0	0	5
Other	(7)	8	0	0	0
Operating Cashflow	**(17)**	**2**	**2**	**(9)**	**(10)**
Capex	(0)	(1)	(10)	(25)	(52)
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)**	**(25)**	**(52)**
Free Cashflow	**(17)**	**1**	**(8)**	**(33)**	**(63)**
Equity Raised / Bought Back	11	0	22	60	0
Dividends Paid	0	0	0	0	0
Change in Debt	1	0	0	0	35
Other	0	(0)	0	0	0
Financing Cashflow	**12**	**(0)**	**22**	**60**	**35**
Exchange Rate Effect	0	(0)	0	0	0
Net Change in Cash	**(5)**	**1**	**14**	**27**	**(28)**

Balance Sheet (USD) (m)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	7	8	21	48	20
Accounts Receivable	11	1	1	1	3
Inventory	0	15	12	14	20
Other Current Assets	7	6	6	6	6
PPE	19	19	28	50	92
Total Assets	**92**	**88**	**109**	**162**	**190**
Accounts Payable	7	1	1	1	3
Short Term Debt	1	0	0	0	0
Long Term Debt	0	0	0	0	35
Total Liabilities	**24**	**15**	**16**	**16**	**53**
Total Shareholder Equity	**78**	**73**	**93**	**146**	**137**

Ratios	FY21A	FY22A	FY23E	FY24E	FY25E
ROE (%)	(3.2%)	(5.3%)	(3.2%)	(5.2%)	(6.5%)
Gearing (%)	(8.4%)	(11.3%)	(29.1%)	(48.1%)	9.7%
Net Debt / EBITDA (x)	6.9	1.3	7.4	7.1	(2.8)
Price to Book (x)	1.6	1.4	0.8	0.8	0.9

Lance Project Revisions

In July 2023, on the verge of restarting the operation, Peninsula Energy was forced to delay the start-up of its Lance uranium project in Wyoming, US due to the cancellation of a resin processing contract with Uranium Energy Corp (UEC:NYSE not covered).

Since mid-2015, Peninsula has been party to a resin processing agreement under which loaded resins generated at the Lance Projects (Lance) are treated at UEC's Irigaray Central Processing Plant to produce a finished yellowcake product. Peninsula received notification that UEC is terminating the agreement. The agreement contained a mutual 270-day notice of termination provision.

Stage 1 of the Lance Uranium Project was about to enter first commercial production. Production was expected to ramp up to 0.8Mlbpa of uranium production before moving to a stage 2 expansion to 2Mlbpa of production in FY26.

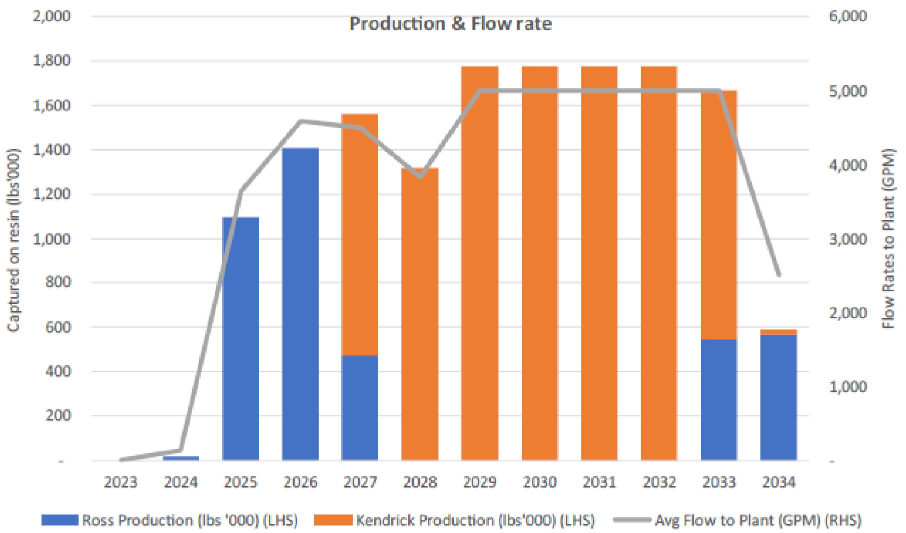
Lance is an In-Situ Recovery (ISR) uranium project whereby uranium is leached from the orebody in an acid solution before being recovered in an ion-exchange resin. In stage 1 of the project the plan was to process the uranium-bearing resin in a processing facility operated by UEC. We do not know the reason why UEC terminated the agreement, although we assume it will be to do with UECs development of its own ISR uranium operations in the US.

Peninsula has released a revised production for Lance which involves moving directly to stage 2 and accelerating the construction of its own resin processing plant at Lance. Key features of the revised plan include:

- First production in Dec-25 and ramping up to 1.8Mlb steady state by 2029.
- Remaining capex to first production of US$53.4m, with a further US$17.4m required to reach full production rates. The peak funding requirement to get to breakeven cash flow has been revised up to US$95m from US$60m – we estimated US$85m.
- C1 operating costs have been revised up from US$16.34/lb to US$21.69/lb with the AISC up from US$39.08/lb to US$42.46/lb.

The revised production plan sees first production in late CY24 and ramping up to 1.8Mlb by 2029. The revised plan has a faster initial ramp-up (higher production in 2025 and 2026) but a lower steady state peak (1.8Mlb v 2.0Mlb). There is also a planned step down in production in 2028 as the operation shifts from Ross to Kendrick although we would not be surprised to see this revised up as the plan continues to be refined.

Figure 1: Revised production plan



Source: Peninsula ASX release 31-Aug-23

Figure 2: Key financial outcomes

Key Ross & Kendrick Financial Outcomes	US$
LoM CAPEX	285.8M
Remaining CAPEX to First Production(1)	53.4M
Ramp-up stage CAPEX (first production to 5,000 GPM flow)	17.4M
LoM Wellfield Replacement & Sustaining CAPEX	215.0M
LoM Project Revenue from Sale of Lance Production (real)	988M
Weighted Average Sales Price used in the LoM	67.07/lb
Average Price Received for Uncontracted Production	72.62/lb
LoM Operating Cashflow (before tax)	258.2M
NPV_8	116.2M
IRR	26%
All in Sustaining Costs (AISC)	42.46/lb
All in Costs (AIC)	50.27/lb

1) Excludes sunk CAPEX spent between January and June 2023

Source: Peninsula ASX release 31-Aug-23

The capital cost estimates have not changed materially, but the timing of the expenditure has changed. The additional capex at the processing plant is only US$19.3m, but there will need to be US$25.4m spent on wellfield development ahead of first production with a further US$15.9m spent to bring the facility to full production. Approximately US$70m will be required to reach cash break-even

Figure 3: Capital Expenditure

Ross & Kendrick Project Level CAPEX Requirements	(US$M)
LoM CAPEX	**285.8**
Remaining CAPEX to 1st Production	**53.4**
- Process Plant	19.3
- Wellfield	25.4
- General	5.1
- Contingency	3.6
Ramp-up Stage CAPEX (1st Production to flow capacity)	**17.4**
- Wellfield	15.9
- General	0.8
- Contingency	0.8
LoM Wellfield Replacement & Sustaining CAPEX (including contingency)	**215.0**

Source: Peninsula ASX release 31-Aug-23

In addition to the capital costs, there will also be initial operating losses to fund, corporate overheads and working capital. Peninsula estimates a total funding requirement of US$142m, of which US$47m is covered from cash and initial revenues, leaving a US$95m funding requirement from alternative sources (debt and equity).

Figure 4: Sources and uses of funds

Sources (US$M)	142.4
Cash Balance as of 30 June 2023	21.4
Revenue on Sales (net of purchases)	26.0
Net additional Funding Needed	95.0
Uses (US$M)	**142.4**
Plant CAPEX	25.2
Wellfield CAPEX	41.2
Site OPEX and Overheads	44.3
CAPEX and OPEX Contingency plus escalation	9.4
Corporate Costs, Non-site Exploration, Working Capital	22.3

Source: Peninsula ASX release 31-Aug-23

Figure 5: Lance financial model (US$m)

Lance (US$m)	2020	2021	2022	2023f	2024f	2025f	2026f	2027f	2028f	2029f	2030f	2031f	2032f
U3O8 (Mlb) - produced	31	0	0	0	0	500	1,300	1,500	1,400	1,600	1,800	1,800	1,800
U3O8 (Mlb) - sold	191	300	450	750	200	500	1,300	1,500	1,400	1,600	1,800	1,800	1,800
Revenue	7	12	24	38	12	38	104	120	112	126	137	149	152
Expenses	4	9	15	32	9	34	48	50	47	54	61	64	65
EBITDA	4	3	9	6	3	4	56	71	65	71	75	85	88
D&A	0	0	0	0	0	5	13	15	14	16	18	18	18
EBIT	4	3	9	6	3	-1	43	55	51	55	57	67	69
Net Operating Assets	66	66	66	76	101	148	151	156	160	169	180	191	203
Capex	0	0	0	10	25	52	17	19	19	26	29	29	30
EBITDA Margin (%)	51%	24%	39%	16%	22%	11%	54%	59%	58%	57%	55%	57%	57%
EBIT / Assets (%)	6%	5%	14%	8%	3%	-1%	28%	36%	32%	33%	32%	35%	34%
Spot U3O8 (US$/lb)	28	31	46	51	63	81	85	85	85	84	81	83	85
AUD/USD	0.67	0.75	0.72	0.67	0.68	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74
Revenue (US$/lb)	39	41	53	51	58	76	80	80	80	79	76	83	85
Expenses (US$/lb)	19	31	32	43	45	68	37	33	34	34	34	35	36
EBITDA (US$/lb)	20	10	21	8	13	9	43	47	47	45	42	47	49
D&A (US$/lb)	0	0	0	0	0	10	10	10	10	10	10	10	10
EBIT (US$/lb)	20	10	21	8	13	-2	33	37	36	35	32	37	38
Nominal Tax @ 21%	0	0	0	0	0	0	0	0	0	-17	-17	-20	-21
Cash Flow	4	3	9	-4	-22	-48	39	51	47	29	29	36	37

Source: Company reports, Shaw analysis

Figure 6: Previous PEN valuation (fully diluted)

Peninsula Energy Valuation - diluted	US$m	A$m	A$ps
Lance	135	192	0.11
Net cash / (debt)	22	31	0.02
Exploration upside	96	137	0.08
Cash from FY24 raising	50	71	0.04
Corporate costs	-11	-15	-0.01
Total Valuation	**292**	**417**	**0.24**
Target price (1.3x diluted valuation)			**0.31**

Source: Company reports, Shaw and Partners analysis

Figure 7: Revised PEN valuation (fully diluted)

Peninsula Energy Valuation - diluted	US$m	A$m	A$ps
Lance	135	193	0.09
Net cash / (debt)	21	31	0.01
Exploration upside	96	137	0.06
Cash from FY24 raising	60	86	0.04
Corporate costs	-11	-15	-0.01
Total Valuation	**302**	**432**	**0.20**
Target price (1.3x diluted valuation)			**0.27**

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$0.27ps 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. In August 2023 the company released a revised plan to move directly to the previous stage 2 operation. Key parameters include:
  - a life of mine (LOM) of 10 years with a plateau production of 1.8Mlbs/yr,
  - upfront capital expenditure of ~US$70m, and
  - an estimated All-in-Sustaining-Cost (AISC) of US$42/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

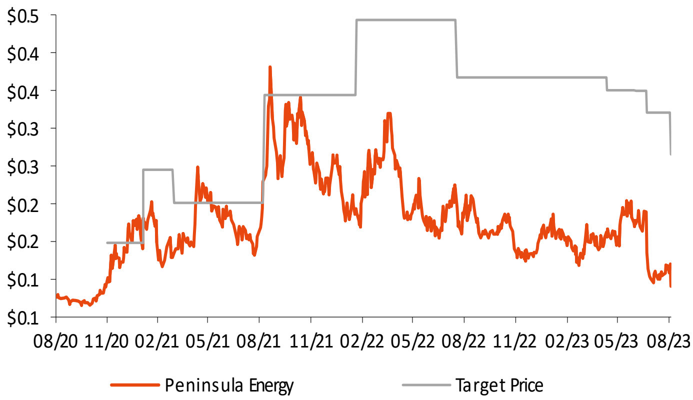
RISK STATEMENT: Where a company is designated as 'High' risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its 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	91%
Hold	10	9%
Sell	0	0%

History of Investment Rating and Target Price - Peninsula Energy

Date	Closing Price ($)	Target Price ($)	Rating
31-Aug-23	0.09	0.27	Buy
19-Jul-23	0.13	0.31	Buy
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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