



Pilbara Minerals Ltd (PLS.ASX)

Ganfeng comes to Pilgangoora

Event:

- **PLS binding offtake and finance agreement with Ganfeng; March Quarterly.**

Investment Highlights:

- **On 2 May PLS announced it signed a binding offtake and financing support agreement with Ganfeng Lithium (Ganfeng), one of China's largest lithium producers.**
- **Offtake.** PLS will supply Ganfeng with 160ktpa of chemical grade spodumene (SC6.0) from Stage 1 and up to a maximum of 150ktpa from Stage 2, contingent on providing Stage 2 funding commitments.
- **Financing.** Ganfeng will subscribe for a minimum of US\$20M (\$27M) in any equity placement by PLS to contribute to Stage 1 financing. For Stage 2, Ganfeng will provide support via debt funding or offtake pre-payment comprising up to 50% of Stage 2 capital and development costs.
- **A notable feature of the agreement is the strong interest Ganfeng has expressed for offtake and financing of Stage 2.** We believe this enhances the probability of Stage 2 being implemented.
- **Ganfeng brings credibility and experience.** Ganfeng is well acquainted with both investing in and purchasing Western Australia spodumene, being an offtaker and equity owner in the Mt Marion lithium mine. We believe Ganfeng is seeing to diversify supply and seeking access to large long-life offtake.
- **All Stage 1 SC6.0 offtake now accounted for.** The agreement with Ganfeng, together with the earlier announced offtake with General Lithium (140ktpa), means that all 300ktpa of SC6.0 is now accounted for.
- **Milestones to come.** Key outstanding issues are Mining Proposal and Closure Plan approval, tantalum and technical grade spodumene (SC7.0) offtake agreements, and closure of financing. We expect these to close by end June. We also expect positive revised financial modelling of Stage 1 and Stage 2 DFS in 2HCY2017, based on improved metallurgical tests.
- **We now assume 60:40 debt-equity funding.** We estimate PLS will need to spend \$246M on capex, working capital, corporate, studies, and other. The company had \$66M cash end March, implying a funding gap of \$181M. We assume \$72M will come from equity, of which Ganfeng and General Lithium should contribute at least \$45M. We assume debt to be \$109M. These are our assumptions only and not that of the company.

Earnings and Valuation:

- **We have reduced FY18e and FY19e earnings based on pushing back the DSO project and higher study/exploration costs.** Our risked valuation has slightly increased to \$0.86/share (prior \$0.85) based on roll-forward of our DCF and assumption of higher debt funding, offsetting a more dilutive equity issue price.

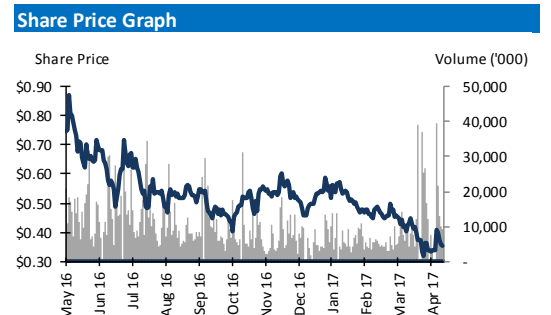
Recommendation:

- **We maintain our Buy recommendation and our 12-month price target is raised slightly to \$0.86** (previously \$0.85) based on our valuation. Catalysts include mining proposal approval; closure of debt and equity financing, including placements to General Lithium and Ganfeng; offtake for tantalum and technical grade spodumene; revised stage 1 modelling; and Stage 2 DFS.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$0.86			
Previous	\$0.85			
Share Price (A\$)	\$ 0.355			
ASX Code	PLS			
52 week low - high (A\$)	0.3125-0.87			
Valuation (A\$/share) - risked	\$0.86			
Methodology	DCF			
Capital structure				
Shares on Issue (M)	1,277			
Market Cap (A\$M)	453			
Net Cash/(Debt) (A\$M)	66			
EV (A\$M)	388			
Options (M)	103			
Fully diluted EV (\$M)	424			
12mth Ave Daily Volume ('000)	9,935			
Y/e Jun (A\$M)	2016a	2017e	2018e	2019e
Sales	0.0	0.0	92.5	390.8
Adj EBITDA	-41.8	-28.6	18.3	195.1
Adj NPAT underlying	-44.3	-26.7	23.3	122.4
Adj EPS diluted \$	-0.05	-0.02	0.01	0.08
PER x diluted	nm	nm	24.1	4.6
EV/EBITDA x	nm	nm	19.3	2.0

Board	
Tony Kiernan	Non-Executive Chairman
Ken Brinsden	Managing Director
Neil Biddle	Non-Executive Director
Nick Cernotta	Non-Executive Director
Steve Scudamore	Non-Executive Director
John Young	Executive Director

Substantial shareholders	
Mineral Resources Ltd	8.2%



Analyst: Mark Fichera +612 9993 8162
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 The analyst owns 233,034 shares in PLS.



Pilbara Minerals (PLS)

Full Year Ended 30 June

Profit and Loss A\$M	2016a	2017e	2018e	2019e
Sales	0.0	0.0	92.5	390.8
Other revenue	0.0	0.1	0.0	0.0
Operating Costs	41.8	28.7	74.2	195.7
Underlying EBITDA	-41.8	-28.6	18.3	195.1
D&A	0.1	0.1	0.4	14.0
Underlying EBIT	-41.9	-28.7	18.0	181.2
Net interest exp/(income)	2.2	-2.0	-1.2	6.4
Profit before tax	-44.1	-26.7	19.1	174.8
Tax exp / (benefit)	0.2	0.0	-4.2	52.4
Underlying NPAT	-44.3	-26.7	23.3	122.4
Non-recurring exp/(benefit)	11.3	0.0	0.0	0.0
Reported NPAT	-55.6	-26.7	23.3	122.4
Underlying EPS diluted (\$)	-0.05	-0.02	0.01	0.08

Cashflow A\$M	2016a	2017e	2018e	2019e
Underlying EBITDA	-41.8	-28.6	18.3	195.1
Change in WC	1.6	0.0	-6.0	-10.8
Tax paid	-0.2	0.0	4.2	-52.4
Other	-0.8	0.0	0.0	0.0
Net interest	0.1	2.0	1.2	-6.4
Share based payments	26.6	9.7	0.0	0.0
Operating Cashflow	-14.6	-16.9	17.7	125.5

Purchase of PP&E	-4.6	-18.3	-195.7	-4.4
Acquisition	0.0	-5.0	0.0	0.0
Investments	-2.0	0.0	0.0	0.0
Other	-1.0	0.0	0.0	0.0
Investing Cashflow	-7.6	-23.3	-195.7	-4.4
Equity issue	122.7	0.6	72.4	0.0
Debt proceeds	4.0	0.0	108.5	0.0
Debt repayments	-0.7	0.0	0.0	0.0
Other	-7.0	-0.2	0.0	0.0
Financing Cashflow	119.0	0.4	180.9	0.0
Net Cashflow	96.8	-39.8	2.9	121.1

Balance Sheet A\$M	2016a	2017e	2018e	2019e
Cash	100.0	60.2	63.1	184.2
Receivables	1.5	1.6	7.0	30.9
Inventories	0.0	0.0	0.0	0.0
PPE	0.8	69.1	264.4	254.8
Capitalised exploration	0.3	5.3	5.3	5.3
Intangibles	0.0	0.0	0.0	0.0
Total Assets	102.7	136.1	345.9	476.1
Accounts payable	3.0	3.0	13.7	10.7
Provisions	1.0	2.4	6.1	16.1
Debt	0.3	0.3	108.9	108.9
Other	0.0	8.1	-0.8	0.0
Total Liabilities	4.3	13.8	127.9	135.6
Reserves and capital	168.2	218.8	291.2	291.2
Retained earnings	-69.8	-96.5	-73.2	49.2
Minorities	0.0	0.0	0.0	0.0
Total Equity	98.4	122.4	218.1	340.4

Financial Metrics	2016a	2017e	2018e	2019e
Sales growth %	nm	nm	nm	322%
EPS growth %	nm	nm	nm	425%
EBITDA margin	nm	nm	20%	50%
EBIT margin	nm	nm	19%	46%
Gearing (ND/ND+E)	nm	-96%	17%	-28%
Interest Cover (EBIT/net int)	nm	nm	-15x	28x
Average ROE %	nm	nm	14%	44%
Average ROA %	nm	nm	7%	44%
Wtd ave shares (M)	823	1,277	1,483	1,483
Wtd ave share diluted (M)	920	1,379	1,586	1,586

Earnings multiples	2016a	2017e	2018e	2019e
P/E x	nm	nm	24.1	4.6
EV/EBITDA x	nm	nm	19.3	2.0
EV/EBIT x	nm	nm	21.7	2.2

Company Valuation	A\$M	A\$/sh	A\$M	A\$/sh
DCF, WACC 10% nominal	Unrisked	Unrisked	Risked	Risked
Segment	A\$M	A\$/sh	A\$M	A\$/sh
Pilgangoora 2Mtpa - base case	1,005	\$0.63	904	\$0.58
DSO project	110	\$0.07	99	\$0.06
Pilgangoora 4Mtpa - incremental value	480	\$0.30	144	\$0.09
Lynas Find Resource	24	\$0.02	22	\$0.01
Expl'n/Resources ex-Reserves	46	\$0.03	31	\$0.02
Unallocated corporate/tax losses	-46	-\$0.03	-41	-\$0.03
Cash - Ganfeng equity raise	27	\$0.02	24	\$0.02
Cash - General Lithium equity raise	18	\$0.01	16	\$0.01
Cash - other equity raise	28	\$0.02	25	\$0.02
Cash - exercised options	48	\$0.03	43	\$0.03
Net cash (debt) March 2017	66	\$0.04	66	\$0.04

Company Valuation	1,804	\$1.14	1,332	\$0.86
Ordinary shares now M	1,277		1,277	
Shares - exercise of options M	103		92	
Shares - Ganfeng equity raise	84		75	
Shares - General Lithium equity raise M	36		32	
Shares - other equity raise M	87		79	
Pro-forma diluted shares M	1,586		1,555	

Commodity Assumptions	2016a	2017e	2018e	2019e
Prices				
Spodumene 6% Li ₂ O (US\$/t), CFR	593	648	684	638
Tantalite (US\$/lb)	62	67	73	78
A\$ (US\$)	0.75	0.74	0.74	0.74
Production				
DSO spodumene 1.5%, kt	0	0	475	950
Concentrate spodumene 6.0%, kt	0	0	0	228
LCE kt	0.0	0.0	0.0	33.8
Tantalite t	0.0	0.0	0.0	90.8
Costs - AISC US\$/t, CFR 6% spodumene	nm	nm	nm	230

JORC Resources & Reserves	Ore Mt	Li2O %	Li2O kt	LCE Mt
Pilgangoora				
Measured	17.6	1.39%	244	0.60
Indicated	77.7	1.31%	1017	2.52
Inferred	61.1	1.13%	691	1.71
Total Resources	156.3	1.25%	1,952	4.83
Total Reserves	69.8	1.26%	883	2.18

Capital structure	M
Ordinary shares	1,276.6
Options (strike \$0.15 to \$0.65, expiries Dec 2017 to Dec 2019)	102.6
Fully diluted shares	1,379.2

Source: Company; Foster Stockbroking estimates



BINDING OFFTAKE & FINANCING SUPPORT COMPLETES MAJOR PIECE OF PUZZLE

- On 2nd May PLS announced that it had signed a binding long term offtake and financing support agreement with Ganfeng Lithium (Ganfeng). Ganfeng is one of China's largest lithium producers, with market capitalisation of US\$4.6b and capacity of 30ktpa LCE.

Ganfeng Offtake and Financing details

- The agreement with Ganfeng is both for Stage 1 (2Mtpa) and Stage 2 (4Mtpa) of the Pilgangoora project. Details include:

Offtake – Ganfeng to take up to 310ktpa

- **Stage 1 (160ktpa spodumene).** An off-take agreement with PLS to supply Ganfeng 160ktpa of chemical grade spodumene (SC6.0) from Stage 1 over an initial ten year term, with two five-year options to extend for a further ten years. The amount of 160ktpa represents about 53% of Stage 1's chemical grade spodumene.
- **Stage 2 (up to 75ktpa additional).** Upon final investment decision and final feasibility studies for Stage 2, PLS is to supply Ganfeng with an additional 25% of Pilgangoora's expanded Stage 2 production of SC6.0 (capped at 75ktpa).
- **Stage 2 (up to 150ktpa additional).** Up to 50% of Stage 2 production (maximum of 150ktpa of the additional Stage 2 production) to be provided in offtake, contingent on Ganfeng providing Stage 2 funding commitments.

Financing support

- **Stage 1.** Firm participation by Ganfeng to subscribe for a minimum of US\$20M (\$27M) in any equity placement by PLS to contribute to financing of Stage 1. Ganfeng can subscribe for additional shares provided its interest in PLS does not exceed 4.9%.
 - **Stage 2.** Provision of debt funding or offtake cash pre-payment of up to 50% of Stage 2's capital and development costs to support the expansion, commensurate with its final offtake position in Stage 2.
- The above means that should Stage 2 go ahead and Ganfeng provide commensurate funding commitments, the total offtake acquired from Pilgangoora by Ganfeng would be 310ktpa (160ktpa Stage 1 plus additional 150ktpa from Stage 2).

Strong show of support for Stage 2

- A notable feature of the agreement is the strong interest Ganfeng has expressed for offtake and financing of Stage 2, highlighting the value of Pilgangoora being a truly scalable and large supplier of spodumene over many years for Ganfeng. This provides PLS with a supportive offtake and financing partner for Stage 2 and certainly enhances the probability of Stage 2 being realised.

Ganfeng well acquainted with Australian lithium environment

- Besides being a major China lithium industry participant, Ganfeng is also familiar with both investing in and purchasing spodumene from Western Australia. It is an offtaker and equity owner in the Mt Marion project, alongside Mineral Resources and NeoMetals who also have interests in the mining operation. This provides us confidence in Ganfeng being able to draw on its experience in assisting PLS in bringing Pilgangoora to production.



Expansion plans drive lithium appetite

- We believe that Ganfeng's desire to secure offtake from another project in Australia signals its own downstream expansion plans and belief in the positive outlook for growing lithium demand. Accessing Pilgangoora also diversifies its sources, reducing supply risk.

STAGE ONE SC6.0 PRODUCTION NOW COMPLETELY ACCOUNTED FOR

- PLS's Stage 1 offtake agreements with Ganfeng (160ktpa of SC6.0) and General Lithium (140ktpa) means that 300ktpa – comprising all the SC6.0 spodumene – of the 314ktpa Stage 1 spodumene production is sold to the two Chinese companies. We expect the balance of 14ktpa will be technical grade spodumene (SC7.0) for which PLS is seeking to secure offtake.

PRICING LINKED TO LITHIUM CARBONATE

- As with the General Lithium agreement, PLS has negotiated pricing of SC6.0 with Ganfeng to be linked to market-based pricing for battery grade LCE, comprising both China domestic and import price outcomes, and to be reset every six months.

FURTHER MILESTONES AHEAD IN THE CURRENT QUARTER

Seeking to close financing

- A number of short term milestones lie ahead of PLS for the Pilgangoora Stage 1 project. We expect these to be achieved by the end of the June 2017 quarter, with the major ones we envisage being:
- **Mining Proposal and Mining Closure Plan to be approved.** PLS has lodged further technical comments to the Western Australia Department of Mines and Petroleum (DMP) to progress application towards final approval. We expect approval to be received in the current quarter and complete PLS's regulatory approvals for mine construction.
- **Offtake to be secured for tantalum and technical grade spodumene (SC7.0).** The company is continuing to progress offtake for these products, being engaged with a number of industry participants.
- **Balance of financing for Pilgangoora Stage 1.** We expect PLS will seek to secure the appropriate debt funding for Stage 1, which should be largely underpinned by the Ganfeng offtake. Additionally we expect some equity funding contemporaneously with debt, including - but not limited to - Ganfeng's and General Lithium's agreed equity subscriptions in PLS. While the timing of the subscription in PLS shares by General Lithium has dragged on longer than expected, we expect PLS and General Lithium will finalise this in the June quarter.



RESERVES UPGRADE AND NETWORK TO ENHANCE PILGANGOORA METRICS

Upgrade to JORC Reserves expected in June

- Besides working on the offtake and financing of Pilgangoora, PLS has diligently continued with technical work on the project. Not only has this resulted in an upgrade of JORC Resources in January, but the company has achieved improved metallurgical results from HMS pilot plant tests, and returned positive results from grade control drilling.
- HMS pilot plant tests have increased recoveries of coarse spodumene in the range from 51.9% to 67.7% vs the 41.9% to 44.6% achieved in the DFS, and Li₂O concentrate grades to 6.05% to 6.26% vs the 6.0% in the DFS. PLS will be seeking to release an updated JORC Reserves statement in the June quarter, which will incorporate the new metallurgical tests.

Financial modelling of Stage 1 to be updated

- We expect the updated JORC Reserves and improved metallurgical results will have positive impact on Pilgangoora's metrics, including enhancing lithium recoveries and reducing unit costs. The company will feed these revised parameters for an update of Stage 1 modelling, in essence revisiting key metrics of the DFS. We expect this will enhance the economics of Pilgangoora, including project NPV.

DFS of Stage 2 to be released in 2H CY2017

- We expect the forthcoming upgrade in JORC Reserves, positive HMS metallurgical results, and revised Stage 1 financial modelling will feed into and underpin the DFS for Stage 2. We anticipate improvement in the DFS economics versus that achieved in the PFS that was released in CY2016. PLS is aiming to release the Stage 2 DFS in 2HCY2017.

TIMELINE: WE EXPECT COMMISSIONING MARCH 2018, FIRST SHIPMENT JULY 2018

- In its quarterly, PLS reiterated that it remains focused on commissioning Stage 1 of the project in early 1QCY18. We are slightly more conservative and maintain our expectation of commissioning in March 2018 and first shipment July 2018 vs PLS's expectation of April 2018.
- Early construction works continue at Pilgangoora, with RCR Tomlinson's FEED for the processing plant nearing completion. A number of key packages are expected to be awarded over the coming weeks.

DSO PROJECT- PUSHED BACK

- PLS continues to progress the Pilgangoora spodumene DSO project, albeit this clearly ranks behind the main concentrate project. While the company has an agreement with Shandong, it has stated it is also in discussions with other potential customers for DSO.
- Given the focus on executing the concentrate project, we have pushed back the DSO project by three months. We now expect mining for DSO to commence in October 2017, and first shipment in January 2018. The project is subject to a number of conditions, including prepayment by Shandong and China regulatory approval.
- PLS has commenced the application process to access Utah Point for the DSO, and has a MoU in place with Atlas Iron (Atlas) to utilise the latter's infrastructure including haulage, storage, and crushing facilities.

**CASH, CAPEX, AND FUNDING – DEBT TO BE IN THE MIX**

- PLS reported \$65.5M cash at the end of the March. During the March quarter, we estimate the company expended \$13.1M on capex, bringing our estimate of the cumulative capex expended to date on Pilgangoora to \$18.3M. We surmise that most of this has been spent on early road works, initial site clearing, earthworks, the concrete batching facility, and camp relocation. This implies that \$195.7M remains to be spent of the original Stage 1 \$214M DFS capex estimate.
- In Figure 1 we have updated our forecast outstanding Stage 1 capex, working capital, corporate, exploration, evaluation, and other costs that PLS will require to July 2018, which is when we expect first shipment. This amount totals \$246.4M. Subtracting \$65.5M of cash at hand, we estimate this leaves PLS with a funding gap of \$180.9M.

We assume 60:40 debt : equity funding

- We assume following the offtake and financing agreement with Ganfeng, the likelihood of debt being utilised has increased. We assume that our outstanding funding gap of \$180.9M will be funded from 60% debt and 40% equity (previously 33% debt: 67% equity). We highlight that this is our assumption only, and that the final outcome of funding chosen by PLS may likely differ.
- We expect the subscription agreements with Ganfeng and General Lithium should result in \$44.5M of equity funding (assuming Ganfeng only participates at its minimum requirement). We assume another \$27.9M of equity would need to be raised, bringing the total equity raised to \$72.4M.

Ganfeng offtake to support most of debt portion

- For the debt portion we assume \$72.4M of debt, most of which should be supported by the Ganfeng offtake.
- In its quarterly PLS expects to complete the remaining outstanding funding by end of May 2017, in-line with our expectation by end June 2017.

Figure 1: Forecast Pilgangoora Stage 1 Expenditure and Funding

Item	\$M
Cash end March 2017 (A)	65.5
Forecast expenditure to first concentrate shipment July 2018:	
Original Pilgangoora capex	214.0
Capex expended to March 2017	-18.3
Outstanding capex balance	195.7
Corporate	10.8
Exploration and studies	11.7
Working capital	17.9
Other (including financing costs)	10.3
Forecast expenditure (B)	246.4
Funding required (B-A)	180.9
<i>Equity portion:</i>	
Ganfeng placement (minimum)	26.7
General Lithium placement	17.8
Other equity	27.9
Sub-total equity (C)	72.4
<i>Debt portion:</i>	
Debt (supported by Ganfeng)	108.5
Sub-total debt (D)	108.5
Total funding sources (C+D)	180.9

Source; Company; Foster Stockbroking estimates.



EARNINGS FORECASTS CHANGES

- We have reduced our FY18e and FY19e earnings forecasts mostly due to pushing back the DSO project by three months, as well as higher exploration and study costs. FY18e NPAT has declined to \$19.1M (prior \$52.8M) while that of FY19e has fallen to \$122.4M (prior \$132.7M).

VALUATION – RISKED NPV₁₀ \$0.86/SHARE

- Our risked NPV₁₀ valuation of PLS has slightly increased to \$0.86/share (prior \$0.85), mostly due to rolling forward our DCF by six months and assuming a higher proportion of debt funding, partially offset by assuming a lower share price for an equity raise. We assume that Ganfeng and other equity raise to be at 10% discount to the current PLS share price and General Lithium at \$0.50. Our unrisked valuation has slightly reduced to \$1.14/share (prior \$1.17) due a slight pushing back of the timing of Stage 2.

Figure 2: PLS Company Valuation

Segment	Unrisked A\$M	Unrisked A\$/sh	Risked A\$M	Risked A\$/sh	1- Risk factor
Pilgangoora 2Mtpa - base case	1,005	\$0.63	904	\$0.58	90%
DSO project	110	\$0.07	99	\$0.06	90%
Pilgangoora 4Mtpa - incremental value	480	\$0.30	144	\$0.09	30%
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Unallocated corporate/tax losses	-46	-\$0.03	-41	-\$0.03	90%
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Cash - General Lithium equity raise	18	\$0.01	16	\$0.01	90%
Cash - other equity raise	28	\$0.02	25	\$0.02	90%
Cash - exercised options	48	\$0.03	43	\$0.03	90%
Net cash (debt) March 2017	66	\$0.04	66	\$0.04	100%
Company Valuation	1,804	\$1.14	1,332	\$0.86	74%
Ordinary shares now M	1,277		1,277		100%
Shares - exercise of options M	103		92		90%
Shares - Ganfeng equity raise	84		75		90%
Shares - General Lithium equity raise M	36		32		90%
Shares - other equity raise M	87		79		90%
Pro-forma diluted shares M	1,586		1,555		98%

Source: Foster Stockbroking estimates.

**RECOMMENDATION - MAINTAIN BUY, PT \$0.86**

- We maintain our Buy recommendation on PLS, lifting our price target to \$0.86/share (prior \$0.85) in-line with our revised valuation. The Ganfeng binding offtake and financing agreement is major milestone, and we still envisage a number of catalysts being:
 - Mining Proposal and Mine Closure Plan approval;
 - Ganfeng and General Lithium placements;
 - Finalisation of Shandong offtake for concentrate;
 - Finalisation of tantalum and technical grade spodumene offtake;
 - Commencement of DSO production;
 - Completion of outstanding financing including debt and equity;
 - Revised Stage 1 financial modelling; and
 - Release of Stage 2 DFS.



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