FOSTER STOCKBROKING

EQUITY RESEARCH

Materials

10th March 2016

Pilbara Minerals Ltd (PLS.ASX)

PFS highlights world class asset with upside to come

Event:

- **Release of PFS for the Pilgangoora project.**

Investment Highlights:

- **The Pilgangoora PFS examined a 15 year 2Mtpa operation wholly underpinned by maiden JORC Reserve of 29.5Mt at 1.31% Li_2O.** An NPV of $407M, or equivalent to $0.46/share, was generated which was better than we had expected for the first 15 years. The NPV was achieved with a modest pricing assumption of US$456/t for spodumene.
- **High production and low costs the highlights.** The PFS exceeded our expectations on output and costs. Pilgangoora will produce 330ktpa of 6% Li_2O spodumene, making it comparable with Greenbushes as the world's largest hard rock supplier of lithium.
- **C3 cash costs of US$205/t** position Pilgangoora as one of the lowest hard rock lithium producers globally, and in the bottom half of the industry cost curve.
- **We expect PLS' position of having 100% ownership of such a Tier 1 asset** will certainly attract corporate appeal, and provide it with strong bargaining platform re offtake and funding.
- **Payback occurs in just over two years,** with pre-production capex of $184M being in-line with our estimate. Based on the PFS assumptions we expect net free cashflows (after tax and sustaining capex) to be c.a. $85M p.a.
- **Mine life likely to be extended under the DFS which should significantly add to NPV.** The next scheduled milestone is the DFS release in 3Q 2016. PLS expects to add further years to the mine life with additional reserves.
- **Our NPV of the maiden 15 Year Reserves is $488M ($0.45/sh) is higher than that of the PFS due to our use of higher prices.** Significant upside can come from another 15 years of reserves, which would add $237M ($0.22/sh) to valuation.

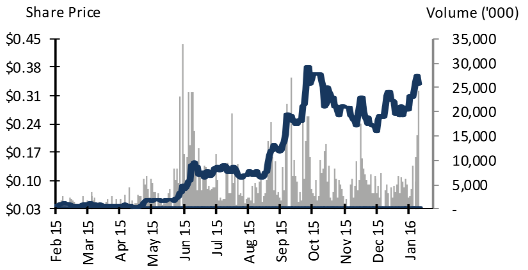
Earnings and Valuation:

- **We have upgraded our risked DCF valuation of PLS to $0.76/share from $0.38/share,** based on 1) Upward revisions to our spodumene price forecasts in-line with consensus and 2) Higher production and lower costs as per the PFS.
- **PLS is highly sensitive to the spodumene price.** We estimate every US$100/t change adds $0.20/share to PLS' valuation. We assume US$489/t as our long term spodumene price, based on current consensus estimates.
- **At the current shareprice PLS is only on a PER of 4x in FY19**, which is the first full year of production from Pilgangoora. We forecast NPAT of $87.9M for PLS in FY19.

Recommendation:

- **We maintain our Buy recommendation on PLS and increase our price target to $0.76/share (**prior $0.47/share) based on our risked valuation.
- **Catalysts include the DFS; extending the mine life; progress on offtake and financing; and continuing positive industry and pricing outlook for lithium**.

Recommendation				**Buy**
Previous				Buy
Risk				High
Price Target				**$0.76**
Previous				$0.47
Share Price (A$)				**$ 0.345**
ASX Code				PLS
52 week low - high (A$)				0.034-0.4015
Valuation (A$/share) - risked				**$0.76**
Methodology				DCF
Capital structure				
Shares on Issue (M)				849
Market Cap (A$M)				**293**
Net Debt/(Cash) (A$M)				-10
EV (A$M)				**283**
Options (M)				53
Fully diluted EV ($M)				**302**
12mth Av Daily Volume ('000)				4,700
Y/e Jun (A$M)	**2015a**	**2016e**	**2017e**	**2018e**
Sales	0.0	0.0	24.0	128.8
Adj EBITDA	-3.2	-4.8	9.5	81.8
Adj NPAT underlying	**-3.4**	**-4.9**	**5.4**	**51.6**
Adj EPS diluted $	**-0.01**	**-0.01**	**0.01**	**0.05**
PER x diluted	**nm**	**nm**	**62.1**	**7.0**
EV/EBITDA x	nm	nm	37.4	4.4
*Adj = undelying FSB estimate				
Board				
Tony Liebowitz				Non-Executive Chairman
Neil Biddle				Executive Director
Robert G Adamson				Non-Executive Director
John Young				Executive Director
Share Price Graph				



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Foster Stockbroking acted as Sole Lead Manager to the $12M placement of 52M shares at $0.23 in November 2015. Foster Stockbroking received fees for this service.