

# Peninsula Energy Ltd.

(PEN-ASX: A\$0.68)

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**BUY, High Risk**

Dundee target: A\$1.50 (was A\$1.80)

## Cash Management Important as Lance Production Ramps

PEN-AU	New	Last
Rating	--	Buy
Target	1.50 ▼	1.80
Risk	High	Speculative
Projected Return	122% ▼	167%
Target/NAV multiple	--	0.90x
Corporate DCF	1.63 ▼	1.87
Cash & Investments	0.05 ▲	0.03
Debt	-0.14 ▲	0.00
Exploration & Unmodelled Resources	0.09	0.09
Total NAV	1.63 ▼	1.98
P/NAV	0.41x ▲	0.34x

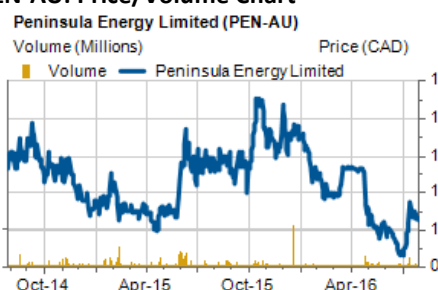
Company Data	
Last Price	A\$ 0.68
52-week Range	A\$ 0.48 - A\$ 1.45
Market Cap (\$MM)	A\$ 117
Enterprise Value (\$MM)	A\$ 134
Shares Outstanding - Basic (MM)	176.4
Shares Outstanding - FD (MM)	243.8
Avg Volume - 100d (000 shares/day)	100.2
Cash (\$MM)	A\$ 9.16
Debt (\$MM)	A\$ 25.34
Working Capital (\$MM)	A\$ 1.17

Forecast	2015A	2016E	2017E	LT
Spot (US\$/lb)	35	33	61	65
Term (US\$/lb)	47	44	65	65
Realized Prices (US\$/lb)	0	64	56	
Revenue (\$MM)	0.3	7.1	40.8	
EPS	(\$0.00)	(\$0.22)	\$0.06	
P/E	n/a	n/a	n/a	
EBITDA (\$MM)	(\$5.1)	(\$37.8)	\$17.2	
EV/EBITDA	n/a	n/a	7.8x	
OP CF (\$MM)	(\$4.9)	(\$40.4)	\$15.6	
Capex (\$MM)	(\$16.4)	(\$12.2)	(\$8.6)	
FCF (\$MM)	(\$21.3)	(\$52.6)	\$7.0	
FCF Yield	n/a	n/a	6%	

All Figures in A\$ Unless Otherwise Noted

Source: FactSet, Company Reports, DCM

### PEN-AU: Price/Volume Chart



Source: Factset

### Company Description

Peninsula Energy is an ASX listed uranium producer with assets in Wyoming (USA), and Karoo, South Africa. Peninsula is primarily focused on ramping up its 100% owned Lance ISR project, which recently initiated production and delivered its first uranium to customers.

We recommend Peninsula as a BUY, but reduce our share target to A\$1.50 from A\$1.80/sh on deferred production for FY16 and FY17. We apply a 0.9x multiple to our 10% DCF model. We also upgrade our risk rating to High from Speculative, given that production rates at Lance have begun to accelerate. We watch Peninsula's cash balance as Stage 2 capital spend nears; particularly as early stage mine costs are higher, and U3O8 deliveries are fewer, smaller and sporadic. Uranium prices are less of an issue due to an extensive suite of industry leading high priced contracts. Though sales of 105,000 lbs were made over the past two quarters, most of this material was sourced from purchases on the spot market. Nevertheless, an exceptional production growth profile in the US coupled with a high-priced contract portfolio makes Peninsula one of our top defensive picks in the sector, provided that ramp-up continues as scheduled. PEN trades at a P/NAV of 0.39x versus developers at 0.33x, producers at 0.38x.

**Q4/16 production, sales pre-released.** Production was 29,000 lbs, and deliveries were 55,000 lbs at US\$62.80/lb with cash received post-Q. Production was sourced from Header Houses 1 and 2, now producing at 105% of target. Flow rates have also achieved targets at 18-20 gpm, and combined head grade now exceed the LOM average of 38 mg/L. We are impressed with the 130% premium over average spot. This contract book is one of the best in the sector. It has 8.1 MM lbs sold forward at an average of US\$55/lb U3O8 for the next ten years. Expect further off-takes to cover Stage 2 and Stage 3 production.

**Production step change in July.** Header houses 3 and 4 have helped increase production by ~70%, post quarter, and 16,800 lbs was produced by July 27th. There are no bottlenecks in the plant. This suggests an annual run rate of 228,000 lbs, which is roughly 1/3 of scheduled Stage 1 capacity. Stage 1 production guidance previously moved back. We now expect 200,000 to 300,000 lbs in CY16, and a run rate of 600,000 to 700,000 lbs by CY17.

**Cash management is important.** Cash is somewhat hand to mouth. We also expect lag time between production, deliveries and payment. Including recent payments we estimate US\$10.4 MM cash on hand, with plans to spend US\$8.3 MM in FQ1/17. US\$11.5 MM is available from a US\$30 MM facility. A \$25 MM Revenue Streaming facility is nearing completion to help fund \$35 MM Stage 2 Capex. Due diligence is completed and the agreement is being finalized.

**Stage 2 development set to begin.** Initial development has started. This would be another step change, doubling production capacity to 1.2 MM lbs pa, bringing final processing in house. Significant cost savings are expected, with total cash costs due to drop from US\$41/lb U3O8 to US\$31 to 32/lb.

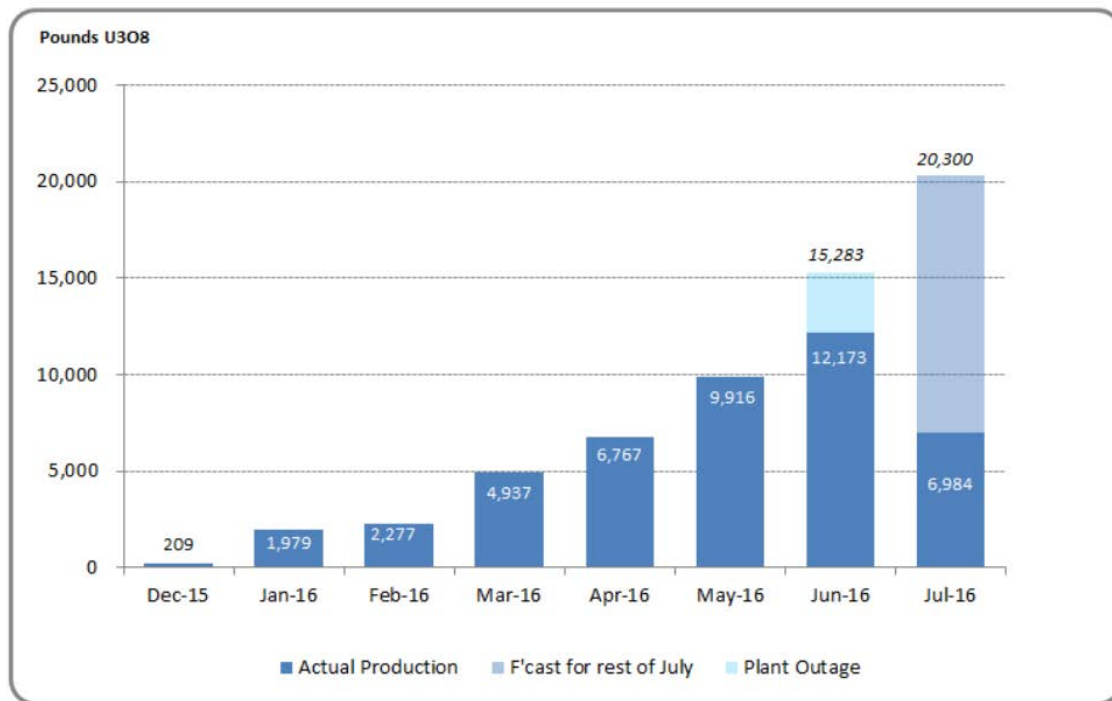
**NYSE listing now expected H2/16.** This should improve liquidity and provide access to new capital. Management believes the main issues are covered, namely using resources, not reserves, for qualifying technical studies. It has also moved to US\$ reporting which should help reduce A\$:US\$ FX sensitivity.

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**Figure 1: Historical monthly production and July forecast. Note June forecast includes estimated production loss from the 7 day plant outage (~3,000 lbs U3O8).**



Source: Company reports

<b>Peninsula Energy Ltd.</b>					
Rating	BUY	A\$ Target	\$1.50	Shares O/S (MM)	176.4
Risk*	High	A\$ Close	\$0.68	Fully Diluted Shares (MM)	243.8
David A. Talbot, VP, Sr. Mining Analyst		12-month return	122%	Basic Mkt. Capitalization (\$MM)	A\$ 117.32
<a href="mailto:dtalbot@dundeecapitalmarkets.com">dtalbot@dundeecapitalmarkets.com</a>				Enterprise Value (\$MM)	A\$ 133.50

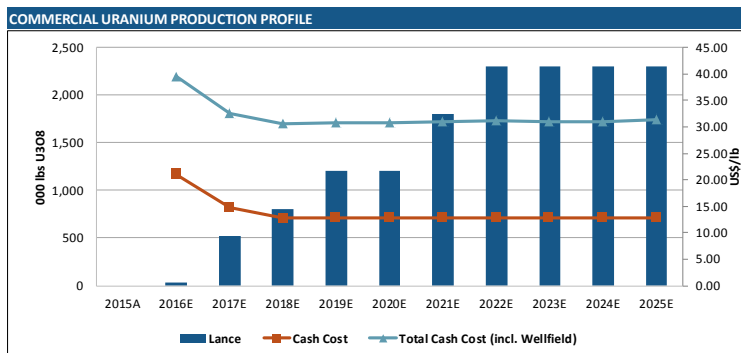
PRODUCTION ESTIMATES (000 lbs)					
Year-end June	2015A	2016E	2017E	2018E	2019E
Lance	0	38	523	800	1,200
<b>TOTAL</b>	<b>0</b>	<b>38</b>	<b>523</b>	<b>800</b>	<b>1,200</b>

TOTAL CASH COST ESTIMATES (excl. non-cash, incl. wellfield expenditures) (US\$/lb)					
Year-end June	2015A	2016E	2017E	2018E	2019E
Lance	0.0	39.5	32.4	30.6	30.9
<b>Wt. Avg. Total Cash Costs</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>39.5</b>	<b>32.4</b>

URANIUM RESERVES & RESOURCES					
	Ownership	Tonnes MM t	Grade % U3O8	Cont U3O8 (MM lbs) 100% Basis	PEN Share
<b>Proven and Probable Reserves</b>					
Ross	100%	--	--	--	--
Kendrick	100%	--	--	--	--
Barber	100%	--	--	--	--
Karoo	74%	--	--	--	--
<b>Total Reserves</b>		<b>0.00</b>	<b>0.00%</b>	<b>0.00</b>	<b>0.00</b>
<b>Measured and Indicated Resources</b>					
Ross	100%	8.65	0.05%	9.93	9.93
Kendrick	100%	4.39	0.05%	4.82	4.82
Barber	100%	2.64	0.04%	2.41	2.41
Karoo	74%	8.00	0.12%	21.90	16.21
<b>Total Measured and Indicated Resources</b>		<b>23.68</b>	<b>0.07%</b>	<b>39.06</b>	<b>33.37</b>
<b>Inferred Resources</b>					
Ross	100%	1.15	0.05%	1.25	1.25
Kendrick	100%	23.83	0.05%	24.80	24.80
Barber	100%	10.50	0.05%	10.46	10.46
Karoo	74%	15.30	0.10%	35.00	25.90
<b>Total Inferred Resources</b>		<b>50.78</b>	<b>0.06%</b>	<b>71.51</b>	<b>62.41</b>
<b>TOTAL RESOURCES</b>		<b>74.45</b>	<b>0.07%</b>	<b>110.57</b>	<b>95.78</b>
<b>Current Per Pound Metrics</b>					
EV/lb (US\$)		\$1.07	1.90	-44%	
Mkt Cap/lb (US\$)		\$0.94	1.50	-37%	

NET ASSET VALUE (A\$) - 10%			
Assets:	NAV (\$ MM)	/Share	% NAV
Lance (100%)	238.9	1.35	83%
Un-mined Resources	15.8	0.09	5%
<b>Balance Sheet &amp; Other Items:</b>			
Cash & Investments	9.2	0.05	3%
Debt	(25.3)	-0.14	-9%
Exploration, G&A, and Other	49.7	0.28	17%
<b>Total</b>	<b>288</b>	<b>1.63</b>	<b>100%</b>
<b>Dundee DCF Target Multiple</b>		<b>0.90x</b>	
<b>Share Price Target</b>		<b>A\$ 1.50</b>	

Long Term Uranium Price Assumption (US\$/lb)					
NAV (C\$/share)	40	50	60	70	80
0% Discount	1.40	2.32	3.25	4.18	5.10
5% Discount	0.86	1.48	2.10	2.72	3.34
10% Discount	0.55	0.98	1.41	1.84	2.27
15% Discount	0.36	0.67	0.98	1.30	1.61



BALANCE SHEET (A\$ MM)				
Year-end June	2015A	2016E	2017E	2018E
<b>Assets:</b>				
Cash & ST Investments	35.56	9.16	11.36	7.94
Other Current Assets	0.84	0.84	0.84	0.84
<b>Current Assets</b>	<b>36.40</b>	<b>10.00</b>	<b>12.20</b>	<b>8.77</b>
Mineral Properties	17.17	29.40	38.00	96.45
Other non-current Assets	131.68	131.68	131.68	131.68
<b>Total Assets</b>	<b>185.25</b>	<b>171.08</b>	<b>181.87</b>	<b>236.90</b>
<b>Liabilities:</b>				
Current Liabilities	4.04	8.83	24.58	4.04
Long-term Debt	0.00	20.55	0.00	0.00
Other non-current Liabilities	2.16	-1.56	3.11	3.11
<b>Total Liabilities</b>	<b>6.19</b>	<b>27.82</b>	<b>27.69</b>	<b>7.14</b>
Capital Stock	237.18	239.54	239.54	289.54
Retained Earnings	(58.1)	(96.3)	(85.4)	(59.8)
<b>Total Shareholder Equity</b>	<b>179.05</b>	<b>143.26</b>	<b>154.18</b>	<b>229.76</b>

INCOME STATEMENT (A\$ MM)				
Year-end June	2015A	2016E	2017E	2018E
Total Revenue:	0.3	7.1	40.8	62.8
% Uranium	0%	99%	98%	100%
% Other	100%	1%	2%	0%
Operating Costs	0.0	8.3	11.6	13.7
G&A	3.8	5.9	4.3	4.3
Exploration	0.0	0.8	0.4	0.0
Depreciation	0.2	0.0	0.8	1.4
Other	1.5	29.9	7.4	6.3
<b>EBITDA</b>	<b>(5.1)</b>	<b>(37.8)</b>	<b>17.2</b>	<b>38.5</b>
<b>EBIT</b>	<b>(5.3)</b>	<b>(37.9)</b>	<b>16.3</b>	<b>37.1</b>
Interest Expense	(0.0)	(0.3)	(1.5)	(0.6)
<b>EBT</b>	<b>(5.3)</b>	<b>(38.2)</b>	<b>14.8</b>	<b>36.5</b>
Taxes	0.0	0.0	(4.7)	(11.0)
Equity Earnings	0.0	0.0	0.0	0.0
Other	0	0	0	0
<b>Net Income (Reported)</b>	<b>(5.3)</b>	<b>(38.2)</b>	<b>10.1</b>	<b>25.6</b>
<b>Net Income (Adjusted)</b>	<b>(5.3)</b>	<b>(38.2)</b>	<b>10.1</b>	<b>25.6</b>
<b>EPS (Reported) \$/sh</b>	<b>(0.00)</b>	<b>(0.22)</b>	<b>0.06</b>	<b>0.12</b>
<b>EPS (Adjusted) \$/sh</b>	<b>(0.00)</b>	<b>(0.22)</b>	<b>0.06</b>	<b>0.12</b>
Average Shares (MM)	5,164.0	174.5	176.9	218.6

CASH FLOW STATEMENT (A\$ MM)				
Year-end June	2015A	2016E	2017E	2018E
Net Income (Reported)	(5.3)	(38.2)	10.1	25.6
Depreciation	(0.2)	(0.0)	(0.8)	(1.4)
Working Capital Changes	0.0	0.0	4.7	0.0
Other	0.7	(2.1)	1.7	2.8
<b>Operating Cash Flow</b>	<b>(4.9)</b>	<b>(40.4)</b>	<b>15.6</b>	<b>27.0</b>
<b>Operating Cash Flow/sh (\$/sh)</b>	<b>0.00</b>	<b>-0.23</b>	<b>0.09</b>	<b>0.12</b>
Capital Expenditures	(16.4)	(12.2)	(8.6)	(59.9)
Acquisitions	0.0	(0.0)	0.0	0.0
Other	(5.6)	0.5	0.0	0.0
<b>Investing Cash Flow</b>	<b>(22.0)</b>	<b>(11.8)</b>	<b>(8.6)</b>	<b>(59.9)</b>
Common Share Dividends	0.0	0.0	0.0	0.0
Equity Financing	69.4	2.4	0.0	50.0
Debt Issue	0.0	25.3	0.0	0.0
Debt Repayment	(12.5)	0.0	(4.8)	(20.5)
Other	(17.6)	(1.9)	0.0	0.0
<b>Financing Cash Flow</b>	<b>39.3</b>	<b>25.8</b>	<b>(4.8)</b>	<b>29.5</b>
<b>Net Change in Cash</b>	<b>15.5</b>	<b>(26.4)</b>	<b>2.2</b>	<b>(3.4)</b>
<b>Cash Balance</b>	<b>35.6</b>	<b>9.2</b>	<b>11.4</b>	<b>7.9</b>
<b>Free Cash Flow</b>	<b>(21.3)</b>	<b>(52.6)</b>	<b>7.0</b>	<b>(32.9)</b>

VALUATION DATA				
Year-end June	2015A	2016E	2017E	2018E
P/E	--	--	0.04x	0.03x
P/CF	--	--	7.63x	5.47x
EV/EBITDA	--	--	7.78x	3.46x
FCF Yield	--	--	6.00%	--

INPUT PRICES				
	2015A	2016E	2017E	2018E
Dundee Spot Uranium (US\$/lb)	35	33	61	65
Uranium Realized Price (US\$/lb)	0	64	56	58
Exchange (US\$/A\$)	0.92	0.72	0.73	0.75

Source: Company Reports, FactSet, Dundee Capital Markets

## Peninsula Energy Ltd.

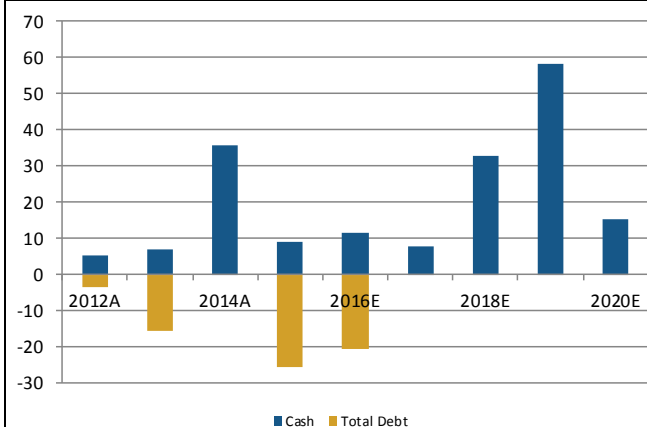
### Net Asset Valuation at Dundee Price Deck (US\$)

	Target Setting NAV		
	Discount Rate	(\$MM)	(\$/Share)
<b>Uranium Assets</b>			
Lance (100%)	10%	239	1.35
<b>Total Uranium Assets</b>		<b>239</b>	<b>1.35</b>
<b>Other Assets &amp; Expenses</b>			
Cash		9	0.05
Debt		(25)	(0.14)
Resources		16	0.09
Exploration, G&A, Other	10%	50	0.28
<b>Net Other Assets</b>		<b>49</b>	<b>0.28</b>
<b>Net Asset Value</b>		<b>288</b>	<b>1.63</b>
<b>Share Price</b>			<b>0.68</b>
<b>P/NAV</b>			<b>0.41x</b>

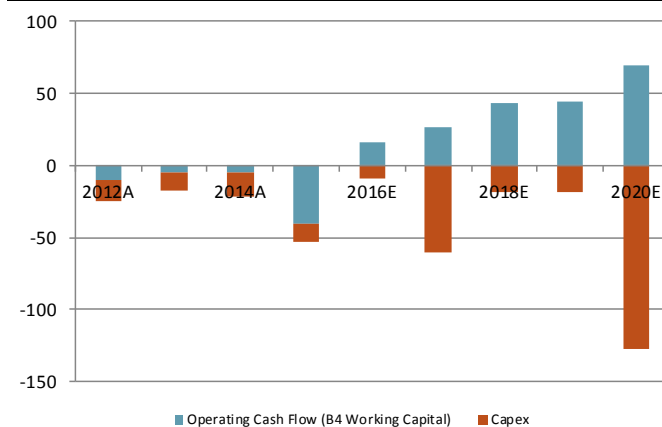
	NAV at Various Discount Rates					
	0%		5%		15%	
	(\$MM)	(\$/Share)	(\$MM)	(\$/Share)	(\$MM)	(\$/Share)
	578	3.27	365	2.07	161	0.91
	<b>578</b>	<b>3.27</b>	<b>365</b>	<b>2.07</b>	<b>161</b>	<b>0.91</b>
	9	0.05	9	0.05	9	0.05
	(25)	(0.14)	(25)	(0.14)	(25)	(0.14)
	16	0.09	16	0.09	16	0.09
	80	0.45	62	0.35	42	0.24
	<b>79</b>	<b>0.45</b>	<b>61</b>	<b>0.35</b>	<b>41</b>	<b>0.23</b>
	<b>657</b>	<b>3.72</b>	<b>427</b>	<b>2.41</b>	<b>202</b>	<b>1.14</b>
		<b>0.68</b>		<b>0.68</b>		<b>0.68</b>
		<b>0.18x</b>		<b>0.28x</b>		<b>0.59x</b>

### Financial Forecasts at Dundee Price Deck (MM A\$)

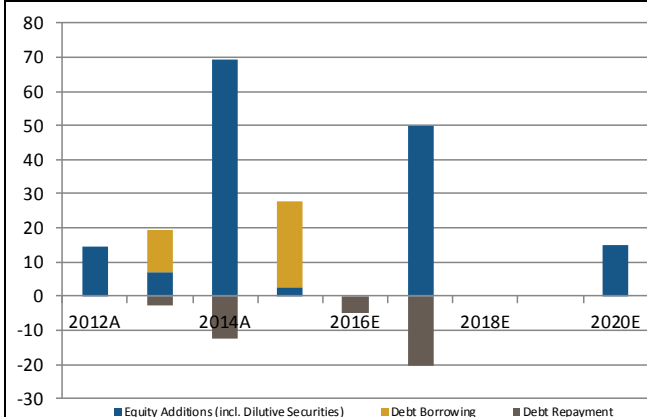
#### Cash and Debt



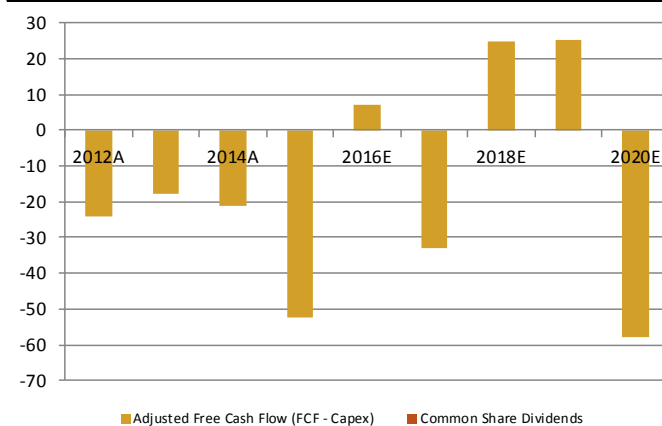
#### Operating Cash Flow and Capital Spending



#### Changes in Debt and Equity



#### Free Cash Flow and Common Share Dividends



Source: Company Reports, FactSet, Dundee Capital Markets

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**Dundee target:** represents the price target as required under IIROC Rule 3400. Valuation methodologies used in determining the price target(s) for the issuer(s) mentioned in this research report are contained in current and/or prior research. Dundee target N/A: a price target and/or NAV is not available if the analyst deems there are limited financial metrics upon which to base a reasonable valuation.

**Recommendations:** BUY: Total returns expected to be materially better than the overall market with higher return expectations needed for more risky securities. NEUTRAL: Total returns expected to be in line with the overall market. SELL: Total returns expected to be materially lower than the overall market. TENDER: The analyst recommends tendering shares to a formal tender offer. UNDER REVIEW: The analyst will place the rating and/or target price Under Review when there is a significant material event with further information pending; and/or when the analyst determines it is necessary to await adequate information that could potentially lead to a re-evaluation of the rating, target price or forecast; and/or when coverage of a particular security is transferred from one analyst to another to give the new analyst time to reconfirm the rating, target price or forecast.

**Risk Ratings:** risk assessment is defined as Medium, High, Speculative or Venture. Medium: securities with reasonable liquidity and volatility similar to the market. High: securities with poor liquidity or high volatility. Speculative: where the company's business and/or financial risk is high and is difficult to value. Venture: an early stage company where the business and/or financial risk is high, and there are limited financial metrics upon which to base a reasonable valuation.

Investors should not deem the risk ratings to be a comprehensive account of all of the risks of a security. Investors are directed to read Dundee Capital Markets Research reports that contain a discussion of risks which is not meant to be a comprehensive account of all the risks. Investors are directed to read issuer filings which contain a discussion of risk factors specific to the company's business.

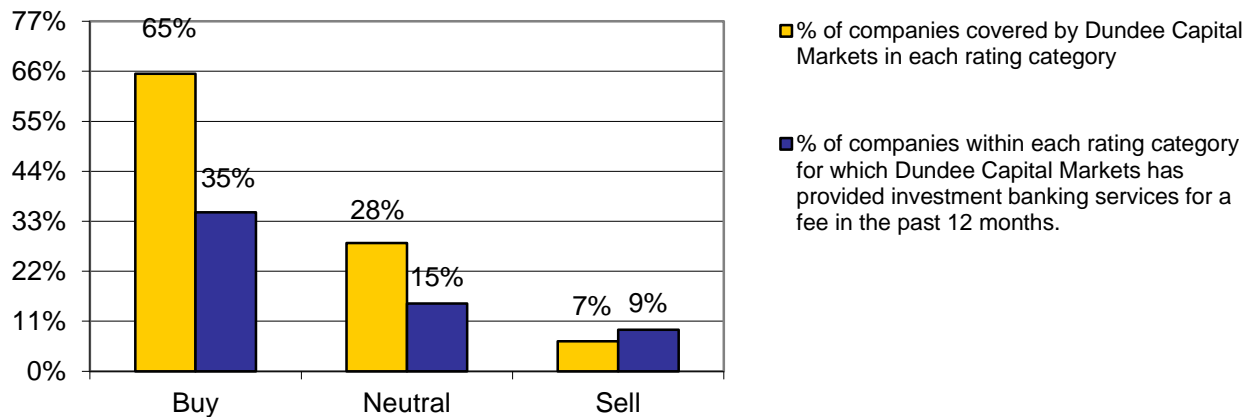
**Medium and High Risk Ratings Methodology:** Medium and High risk ratings are derived using a predetermined methodology based on liquidity and volatility. Analysts will have the discretion to raise but not lower the risk rating if it is deemed a higher risk rating is warranted. Risk in relation to forecasted price volatility is only one method of assessing the risk of a security and actual risk ratings could differ.

Securities with poor liquidity or high volatility are considered to be High risk. Liquidity and volatility are measured using the following methodology: a) Price Test: All securities with a price  $\leq$  \$3.00 per share are considered high risk for the purpose of this test. b) Liquidity Test: This is a two-tiered calculation that looks at the market capitalization and trading volumes of a company. Smaller capitalization stocks ( $<$ \$300MM) are assumed to have less liquidity, and are, therefore, more subject to

price volatility. In order to avoid discriminating against smaller cap equities that have higher trading volumes, the risk rating will consider 12 month average trading volumes and if a company has traded >70% of its total shares outstanding it will be considered a liquid stock for the purpose of this test. c) Volatility Test: In this two step process, a stock’s volatility and beta are compared against the diversified equity benchmark. Canadian equities are compared against the TSX while U.S. equities are compared against the S&P 500. Generally, if the volatility of a stock is 20% greater than its benchmark and the beta of the stock is higher than its sector beta, then the security will be considered a high risk security. Otherwise, the security will be deemed to be a medium risk security. Periodically, the equity risk ratings will be compared to downside risk metrics such as Value at Risk and Semi-Variance and appropriate adjustments may be made. All models used for assessing risk incorporate some element of subjectivity.

**SECURITY ABBREVIATIONS:** NVS (non-voting shares); RVS (restricted voting shares); RS (restricted shares); SVS (subordinate voting shares).

**Dundee Capital Markets Equity Research Ratings**



As at June 30, 2016

Source: Dundee Capital Markets