



Pilbara Minerals (PLS.ASX)

28 October 2014

Producing cash by end 2014

Tabba Tabba : high grade hits, upgrading Resources, extending defined mine life

Recommendation

BUY; High Risk

Price

5.1c

Valuation

11.5c

- PLS announced high grade, shallow intercepts at Tabba Tabba, including 5m at 1,856ppm Ta₂O₅, from 7m and 7m at 1,361ppm from 7m. This compares with the Reserve grade of 1,220ppm and an economic grade of about 400ppm.
- The drilling was aimed at bringing Inferred Resources into the mining plan with in-fill drilling and increasing the Resource estimate.
- PLS expects to begin production from Tabba Tabba within the next 2 months.

Snapshot

Market Cap	\$30m
Shares on Issue	594.1m
Cash on hand (pro-forma, 14 July 2014)	\$5.0m
52 Week High	2.8c
52 Week Low	0.8c
1 month / 6 month VWAP	2.4c / 2.2c

Tabba Tabba – high grade tantalite

The assay results announced on 27 October following drilling of 38 shallow RC holes undertaken in September and October.

The results confirm that robustness and grade of the initial Resource at Tabba Tabba, of 154kt @ 1220ppm.

Mining about to start

It prepares the way for mining to begin later this year.

The present mine plan provides for a mine life at Tabba Tabba of about 16 months. Some of the drilling will extend this mine life.

Impact

PLS has a 50% share of Tabba Tabba, which is funded to being operations.

Beer & Co expect that the operations at Tabba Tabba will generate sufficient cash for PLS to develop operations at Pilgangoora, which is much larger, though with lower Ta₂O₅ grades, but with good Li₂O grades.

While positive, the announcement does not cause us to change our valuation of PLS at this time.

Our valuation may be upgraded when PLS's Reserves and resources are revised, and also when Tabba Tabba is shipping product. Both of these should happen within the next 2 months.

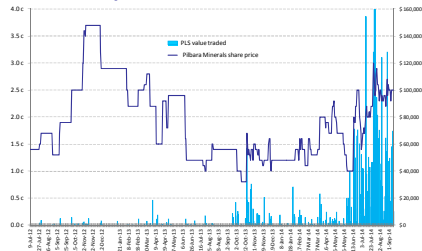
PLS has now received clearances to begin drilling at Pilgangoora.

Beer & Co's risked valuation is 11.5c.

Beer & Co confirms our risked valuation of PLS of 11.5c/share, which is more than 2x the current share price.

Beer & Co confirms our BUY, High Risk recommendation.

PLS Share price v. volume



Pilbara Minerals acquired a 50% stake in the Tabba Tabba project in October 2013. Its partner is the privately owned metallurgical engineering company Nagrom.

PLS published a feasibility study on Tabba Tabba in February and has since raised equity to bring it into production before the end of 2014.

In May 2014, PLS announced the acquisition of 100% of Pilgangoora, 55km from Tabba Tabba in the Pilbara region.

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Confirming Tabba Tabba

Tabba Tabba background

Figure 1 shows the current Resource estimate for Tabba Tabba, of 213kt at 1220ppm, of which 155kt is in the Measured and Indicated categories.

Figure 1 : Tabba Tabba Resource estimate

		Ta ₂ O ₅ grade contained Ta ₂ O ₅	
Measured	30.1 kt	1,610 ppm	106,960 lb
Indicated	124.4 kt	1,260 ppm	346,040 lb
Inferred	58.4 kt	925 ppm	119,200 lb
TOTAL	212.9 kt	1,220 ppm	572,200 lb

Source : PLS ASX announcement, 18 November 2013, Beer & Co

Figure 2 shows the Reserve announced by PLS on 19 February 2014, together with the initial mining inventory.

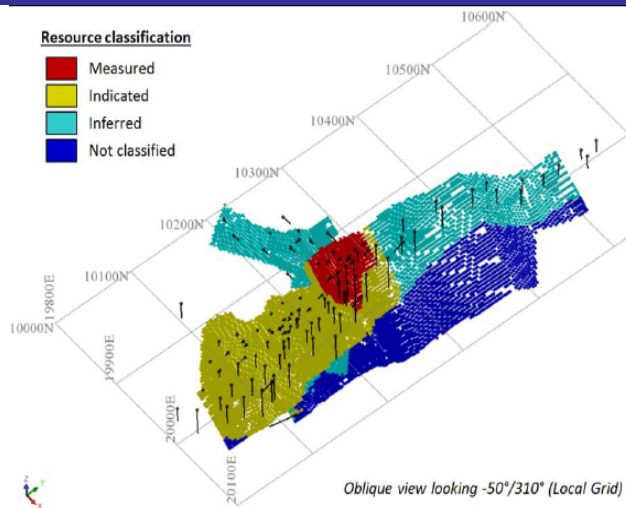
Figure 2 : Tabba Tabba Reserves and mining inventory

		Ta ₂ O ₅ grade contained Ta ₂ O ₅		Nb ₂ O ₅ grade contained Nb ₂ O ₅	
Proved	32.0 kt	1,420 ppm	100,178 lb	294 ppm	20,741 lb
Probable	101.0 kt	1,249 ppm	278,111 lb	292 ppm	65,019 lb
Total Reserves	133.0 kt	1,290 ppm	378,289 lb	292 ppm	85,760 lb
Pit Design	162.2 kt	1,240 ppm	443,411 lb		

Source : PLS ASX announcement, 19 February 2014, Beer & Co

Figure 3 shows the relationship between Resources and the pit design as included in the Feasibility Study.

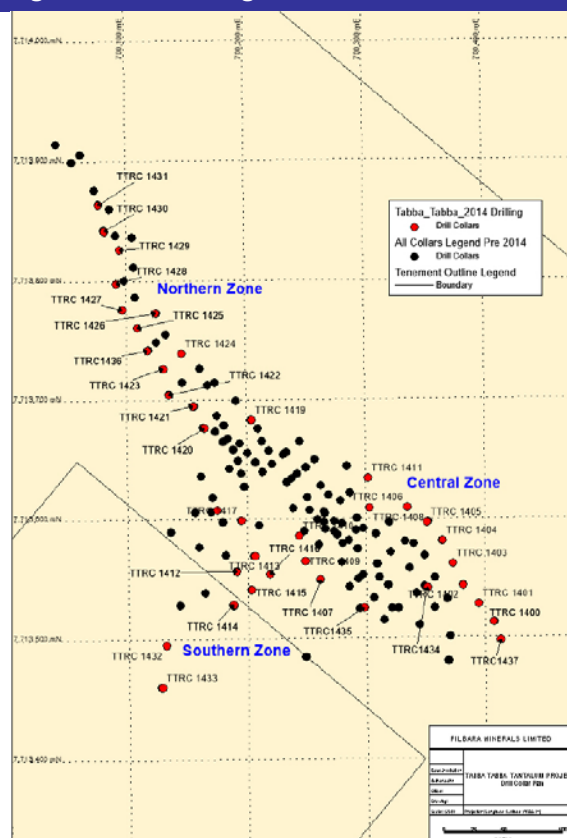
Figure 3 : Resources v. pit design



Source : PLS ASX announcement, 19 February 2014

Tabba Tabba drilling

Figure 4 : PLS drilling at Tabba Tabba



Source : PLS ASX announcement, 27 October 2014

Figure 4 shows the drill collar location of the 38 RC holes drilled by PLS in September and October.

Comparing these drill locations with the areas included in the current Resource estimate shows that drilling, the assays of which were announced on 27 October, was aimed at :

- Converting some of the Inferred Resource, shown in light blue in Figure 3, into Indicated Resources, so that they can be included in the current mining reserve;
- Extending the area included in the Resource, with drilling in the eastern portion shown in dark blue; and
- Testing the southern zone.

The Mining Reserve estimate shown in Figure 2 was estimated using a lower cut-off of 275ppm. Many intercepts were reported with a higher grade. Some of the better intercepts included :

- 5m at 1,856ppm Ta₂O₅, from 7m below surface, in hole TTRC 1435;
- 7m at 1,361ppm Ta₂O₅, from 7m below surface, in hole TTRC 1410;
- 12m at 567ppm Ta₂O₅, from 6m below surface, in hole TTRC 1421;
- 4m at 505ppm Ta₂O₅, from 23m below surface, in hole TTRC 1418;
- 9m at 463ppm Ta₂O₅, from 17m below surface, in hole TTRC 1434;
- 5m at 524ppm Ta₂O₅, from 46m below surface, in hole TTRC 1404, including 1m at 1,910ppm from 46m.

The results of the drilling show that there is some tin potential, with results up to 0.41% Sn.

Figure 4 shows that only 3 holes were drilled in the southern zone. This is because clearances for drilling in this zone were not obtained in time to be included in the recent drill programme, but will be drilled in a subsequent programme.

Impact

Overall, the results of the drilling are consistent with the values assumed by Beer & Co in our valuation, as shown in Figure 5.

Figure 5 : Assumed mining inventory

		Ta₂O₅ grade	contained Ta₂O₅
Reserves	133 kt	1,290 ppm	378k lb
Resources	80 kt	1,100 ppm	194k lb
near pit	50 kt	900 ppm	99k lb
Along strike	500 kt	750 ppm	827k lb
Strelly, high grade	500 kt	600 ppm	661k lb
Strelly, balance	900 kt	450 ppm	892k lb
TOTAL	2,162 kt	640 ppm	3,051k lb

Source : Beer & Co estimates

Figure 6 shows the detail of Beer & Co's valuation of PLS; it shows that Tabba Tabba accounts for only a small part of our overall, risked valuation.

Figure 6 : Detail of Beer & Co's valuation of 11.5c

discount rate = 12.0 %	risk :	30-Jun-14		28-Oct-14	
		100%	Product	per share	
Tabba Tabba Resources	85 %	\$ 5m	\$ 4m	0.6 c	0.6 c
Tabba Tabba Extensions	65 %	\$ 5m	\$ 3m	0.4 c	0.5 c
Strelly	45 %	\$ 2m	\$ 1m	0.1 c	0.1 c
fanking credits	50 %	\$ 1m	\$ 1m	0.1 c	0.1 c
Pilgangoora Resources	40 %	\$ 80m	\$ 32m	4 c	5 c
Pilgangoora Extension	20 %	\$ 58m	\$ 12m	2 c	2 c
fanking credits	20 %	\$ 56m	\$ 12m	2 c	2 c
Corporate	100 %	(\$6m)	(\$6m)	(0.8c)	(0.8c)
Cash / debt	100 %	(\$0m)	(\$0m)	(0.1c)	0.1 c
cash raised	100 %	\$ 7m	\$ 7m	0.9 c	0.8 c
TOTAL		\$ 207m	\$ 65m	9.0 c	11.5 c
Shares on issue		330.3m	FPO shares	91.8m options	
		263.8m	issued 2014	91.8m op. ex'd	
		34.8m	CNs converted		
		0.0m	new equity		

Source : Beer & Co estimates

Conclusions

While positive, the announcement does not cause us to change our valuation of PLS at this time, but it helps to confirm our valuation.

Our valuation may be upgraded when PLS's Reserves and resources are revised, and also when Tabba Tabba is shipping product. Both of these should happen within the next 2 months.

Beer & Co confirms our risked valuation of PLS of 11.5c/share, which is more than 2x the current share price.

Beer & Co confirms our BUY, High Risk recommendation.

Beer & Co Research

Pilbara Minerals (PLS.ASX)

October 2014

Year ended June	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Section 1 - P&L							
Sales revenue	\$A m	0	5	11	8	67	100
Interest revenue	\$A m	0	0	1	1	1	1
Other revenue	\$A m	0	0	0	0	0	0
Total Revenue	\$A m	0	6	11	9	68	101
Cost of Goods Sold	\$A m	0	(3)	(4)	(4)	(45)	(62)
Royalties	\$A m	0	0	0	0	0	0
Exploration Expense	\$A m	0	0	0	0	0	0
Corporate Costs	\$A m	(1)	(1)	(1)	(1)	(1)	(1)
Other Operating Expenses	\$A m	0	0	0	0	0	0
Total Operating Expenses	\$A m	(1)	(4)	(5)	(5)	(46)	(63)
EBITDA	\$A m	(1)	2	6	3	21	38
Dep'n & Amort'n	\$A m	0	(3)	(4)	(0)	(2)	(4)
EBIT	\$A m	(1)	(1)	1	3	20	34
Interest Expense	\$A m	0	0	0	0	(1)	(1)
Other	\$A m	0	0	0	0	0	0
Pre-Tax Profit	\$A m	(1)	(1)	1	3	19	34
Tax Expense	\$A m	0	0	(0)	(1)	(6)	(10)
NPAT	\$A m	(1)	(1)	1	2	13	24
Reported NPAT	\$A m	(1)	(1)	1	2	13	24

Section 2 - Key Data

Ordinary shares - year end	m	330.3	594	629	721	721	721
Fully diluted shares on issue	m	456.9	721	721	721	721	721
Weighted # shares	m	291.5	594	620	675	721	721
Earnings per Share		(0.3c)	(0.1c)	0.2 c	0.3 c	1.8 c	3.5 c
Dividends Per Share		0.0 c	0.0 c	0.0 c	0.0 c	0.3 c	2.5 c

Section 3 - Balance Sheet

Cash	\$A m	1	4	10	6	24	31
Receivables	\$A m	0	1	1	1	11	13
Other	\$A m	0	0	0	0	0	0
CURRENT ASSETS	\$A m	1	6	11	6	35	44
Receivables	\$A m	0	0	0	0	0	0
P, P & E	\$A m	2	3	1	20	20	18
Mining Properties / Exploration	\$A m	4	4	3	3	3	2
Other	\$A m	0	0	0	0	0	0
NON-CURRENT ASSETS	\$A m	7	6	4	23	23	18
TOTAL ASSETS	\$A m	8	12	15	30	58	64
Payables	\$A m	0	1	1	1	6	6
Debt	\$A m	0	2	0	1	3	2
Other	\$A m	0	0	0	0	0	0
CURRENT LIABILITIES	\$A m	0	2	1	1	8	9
Long Term Debt	\$A m	2	0	10	9	6	3
Deferred Tax Liability	\$A m	0	0	0	0	0	0
Other	\$A m	0	0	0	0	0	0
Provisions	\$A m	0	0	0	0	0	0
NON-CURRENT LIABILITIES	\$A m	2	0	10	9	6	3
TOTAL LIABILITIES	\$A m	2	2	10	10	15	10
NET ASSETS	\$A m	6	10	5	20	43	44
Accumulated Profit (Loss)	\$A m	(12)	(13)	(12)	(10)	3	19
Reserves	\$A m	1	2	(7)	3	13	7
Contributed Equity	\$A m	17	20	23	26	26	26
Minority Interest	\$A m	0	0	0	0	0	0
Total Equity	\$A m	6	10	5	20	43	44

Section 4 - Cashflow

Net Cashflow from operations	\$A m	(3)	(1)	3	(7)	18	27
Net Interest Paid	\$A m	0	0	1	1	(0)	0
Taxes Paid	\$A m	0	0	0	0	(0)	(11)
Change in Working Capital	\$A m	(0)	(5)	(5)	4	(34)	8
OPERATING CASHFLOW	\$A m	(4)	(6)	(2)	(2)	8	20
Exploration Expenditures	\$A m	0	1	2	0	0	0
Maintenance Capex	\$A m	0	0	0	0	1	1
Expansion Capex	\$A m	2	1	0	19	0	0
PPE Acquisitions (Total Capex)	\$A m	2	3	2	20	1	1
PPE Divestments	\$A m	0	0	0	0	0	0
INVESTING CASHFLOW	\$A m	2	3	2	20	1	1
Change in Equity	\$A m	2	4	1	3	0	0
Dividends Paid	\$A m	0	0	0	0	(10)	(20)
Change in Debt	\$A m	2	0	8	0	(1)	(3)
FINANCING CASHFLOW	\$A m	3	4	10	3	(1)	(23)
Free Cashflow	\$A m	(2)	(3)	1	17	(1)	1
Net Cashflow	\$A m	2	1	10	20	(4)	(2)

Commodity price assumptions

Year ended June	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
AUD/USD	0.890	0.855	0.850	0.850	0.850	0.850
Tantalite	US\$ / lb	83	83	83	83	83
Spodumene	US\$ / lb	3.0	3.0	3.0	3.0	3.0

Mine Production, PLS share, '000 pounds

Tabba Tabba Ta2O5	65	131	98	163	160	130
Pilgangoora Ta2O5	0	0	0	261	430	434
Pilgangoora Spodumene	0	0	0	10,726	17,681	17,849

Resources, Reserves and assumed mining inventory

Tabba Tabba Ore Reserves

		Ta ₂ O ₅ grade	contained Ta ₂ O ₅
Proved	32 kt	1,420 ppm	100k lb
Probable	101 kt	1,249 ppm	278k lb
Total Reserves	133 kt	1,290 ppm	378k lb
Pit Design	162 kt	1,240 ppm	443k lb

Tabba Rabba Mineral Resources

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Beer & Co estimated mining inventory, Tabba Tabba

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Pit Design	2,162 kt	640 ppm	3,051k lb

Pilgangoora Mineral Resources

		Ta ₂ O ₅ grade	contained T	Li ₂ O grade	Contained Li ₂ O
Inferred Resource	10,400 kt	240 ppm	5,503k lb		
Inferred Resource	8,600 kt			1.01 %	87 kt

Beer & Co estimated mining inventory, Pilgangoora

		Ta ₂ O ₅ grade	ined Ta ₂ O ₅	Li ₂ O grade	tained Li ₂ O
	25,400 kt	240 ppm	13,439k lb	1.17 %	297 kt

Asset based Valuation

discount rate = 12.0 %	30 June 2014		28-Oct-14	
	risking	100% Product	per share	
Tabba Tabba Resources	\$ 5m	\$ 4m	0.6 c	0.6 c
Tabba Tabba Extensions	\$ 5m	\$ 3m	0.4 c	0.5 c
Strelly	\$ 2m	\$ 1m	0.1 c	0.1 c
fanking credits	\$ 1m	\$ 1m	0.1 c	0.1 c
Pilgangoora Resources	\$ 80m	\$ 32m	4.5 c	5.5 c
Pilgangoora Extension	\$ 58m	\$ 12m	1.6 c	2.3 c
fanking credits	\$ 56m	\$ 12m	1.7 c	2.3 c
Corporate	(\$6m)	(\$6m)	(0.8c)	(0.8c)
Cash / debt	(\$0m)	(\$0m)	(0.1c)	0.1 c
cash raised	\$ 7m	\$ 7m	0.9 c	0.8 c
TOTAL	\$ 207m	\$ 65m	9 c	11.5 c
Shares on issue	330.3m	FPO share	91.8m options	
	263.8m	issued 201	91.8m op. ex'd	
	34.8m	CNs converted		
	0.0m	new equity		

Financial Ratios

Year ended June	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Revenue	\$A m	6	11	9	68	103
EBITDA	\$A m	(1)	2	6	3	21
EBIT	\$A m	(1)	(1)	1	3	20
NPAT (reported)	\$A m	(1)	(1)	1	2	13
Adjusted EPS (cps)		(0.3c)	(0.1c)	0.2 c	0.3 c	1.8 c
EPS Growth (%)			56 %	208 %	92 %	495 %
DPS (c)		0.0 c	0.0 c	0.0 c	0.3 c	2.5 c
Dividend Yield (%)			0 %	0 %	6 %	50 %
PE adj. (x)	x	(6)	(35)	32	17	3
EV / EBITDA (x)	x	(7)	14	5	13	1
EV / EBIT (x)	x	(7)	(31)	23	14	1
Gearing (%)		13 %	64 %	32 %	15 %	10 %
Return on Assets		(7%)	10 %	10 %	34 %	58 %
Return on Equity		(9%)	21 %	10 %	30 %	49 %
EBITDA Margin (%)		n/a	37 %	55 %	39 %	32 %
Interest Cover (x)	x	n/a	n/a	n/a	n/a	22.1

Shareholdings

Neil Biddle	34,438m	5.8 %
Vaughan Blank	33,333m	5.6 %

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The analyst responsible for this research report certifies that all of the views expressed reflect his personal views about the securities and the issuer.

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