



Piedmont Lithium Ltd (PLL.ASX)

Widening options

Event:

- Updated Scoping Study for Integrated plant; PFS for Merchant plant.

Investment Highlights:

- Piedmont Lithium (PLL) recently delivered a PFS on a Merchant plant and updated Scoping study on the Integrated plant.** The Merchant PFS assumes a stand-alone plant sourcing spodumene from third parties for conversion to LiOH. The Integrated plant – which was the initial strategy – assumes mining and converting its own Piedmont project spodumene to lithium hydroxide (LiOH).
- Both the Merchant and Integrated studies show PLL to be a relative low-cost producer of LiOH when compared to equivalent peers.** The Roskill 2028 AISC LiOH cost curve shows the Integrated Piedmont still at the bottom of the curve. The Merchant is in the second highest quartile – however it is the lowest cost of all other similar Merchant converters – benefiting from North Carolina's low taxes, cheap labour and power, and ample infrastructure access.
- LiOH cash costs are US\$3.7k/t for the Integrated plant and \$6.7k/t for the Merchant,** the latter higher because of need to purchase spodumene at market than at cost direct from mine (US\$651/t vs US\$201/t).
- Rationale for Merchant plant – less equity dilution, less upfront capital, less lead time.** PLL's rationale for the Merchant plant is limiting equity dilution from higher upfront capex by postponing mine development. It also derisks project by focusing execution on one stream initially. Capex for the Merchant plant is US\$377M vs US\$455M for Integrated plant plus mine. The lower capex allows the Merchant plant to match the Integrated's IRR, despite having higher opex.
- Alternate customer of spodumene.** PLL's Merchant strategy also hinges on positioning itself to non-integrated miners (e.g. new WA producers) and emerging suppliers (Africa, Canada, Europe, Brazil) as an alternative buyer of spodumene to China. Given ensuing geopolitical and trade war tensions, this may prove compelling.
- June equity placement enable studies to progress.** PLL will have \$40M cash pro-forma post raising \$27M net equity in June together with \$13M held end March 2020. This should allow progressing of permitting and the DFS for Merchant plant, as well as funding to increase Measured and Indicated Resources for a PFS for the Integrated project should lithium markets improve.

Valuation and Earnings:

- We have reduced earnings going forward,** mostly due to reduction in our LiOH price forecasts (\$11.7k/t Lt vs \$12.0k/t prior) and assuming the Merchant plant is commissioned initially vs lower cost Integrated plant.
- Our PLL share valuation reduces to \$0.24 from \$0.26,** due to lower earnings and dilution from the June equity placement, partially offset by less dilutive impact of funding the Merchant option vs Integrated previously.

Recommendation:

- We maintain our Speculative Buy on PLL, reducing our 12-month share price target to \$0.24 from \$0.26,** based on our 1.0x price/risked NPV. Catalysts for the share price include Merchant plant DFS; Increase in Measured & Indicated Resources; Integrated plant PFS; and Improving lithium markets.

Disclosures

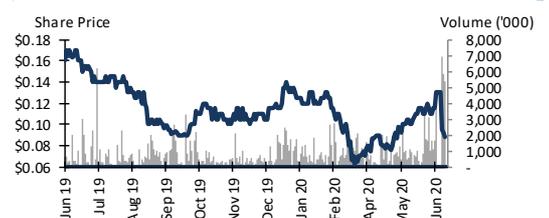
The analyst does not own PLL securities. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 179,688 PLL shares. Cranport Pty Ltd owns 5,000,000 PLL shares. Refer disclosures at end of report for details. **Foster Stockbroking acted as Co-Manager to the A\$21M placement of 145M PLL shares at \$0.145 in July 2019, for which it received fees. Foster Stockbroking will received fees from the A\$29M placement of 327M PLL shares at \$0.09 in June 2020. Foster Stockbroking has provided corporate advice to PLL for which it received fees. Refer details end of report.**

Recommendation	Speculative Buy			
Previous	Speculative Buy			
Risk	High			
Price Target	\$0.24			
Previous	\$0.26			
Valuation	\$0.24			
Methodology	DCF			
Share Price (A\$)	\$ 0.092			
ASX Code	PLL			
52 week low - high (A\$)	0.062-0.17			
Capital structure				
Shares on Issue pro-forma (M)	1,153			
Market Cap (A\$M)	106			
Net Cash/(Debt) (A\$M) pro-forma	40			
EV (A\$M)	66			
Options (M)	62			
Performance rights (M)	8			
Fully diluted EV (\$M)	72			
12mth Ave Daily Volume ('000)	877			
Estimates y/e Jun	2019a	2020e	2021e	2022e
Sales US\$M	0.0	0.0	0.0	0.0
EBITDA US\$M	-10.2	-7.5	-6.5	-5.5
NPAT adj US\$M	-10.1	-7.4	-5.8	-5.0
EPS adj US\$	-0.01	-0.01	0.00	0.00

Substantial shareholders

Bank of New York Mellon Corporation	27.7%
Australian Super Pty Ltd	13.3%
FIL Ltd	7.3%
NASDAQ Securities Australia Pty Ltd	6.4%

Share Price Graph



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