



Piedmont Lithium Ltd (PLL.ASX)

Made in USA, bought by TSLA

Event:

- Review of Tesla sales agreement; Capital raising; PT change.

Investment Highlights:

- Piedmont Lithium's (PLL) binding sales agreement for spodumene concentrate with Tesla Inc is a company game changer.** PLL will supply Tesla for an initial term of five years of approximately one-third (ca. 52ktpa) of its 160ktpa spodumene concentrate from the Piedmont mine.
- Pricing above spot.** Pricing under the agreement is fixed over a five-year term. No details were disclosed other than that sales would be equivalent to 10%-20% of PLL's revenues from the first five years of the proposed Integrated project. We believe this implies pricing well above spot today.
- Reinforces made in USA strategy.** We have argued for a while that increasing Sino-American geopolitical tensions, security of supply, and OEMs' desire for locally sourced raw battery materials were playing into PLL's favour. The Tesla announcement crystallises this view commercially.
- Impetus provided to Integrated project.** PLL now is highly motivated to grow its Piedmont spodumene resource project in terms of Resources and build momentum for the mine and Integrated plant. The Tesla agreement is conditional upon both parties mutually agreeing, based on their development schedules, to a start date for deliveries between July 2022 and July 2023. PLL will also continue with its Merchant Plant (PFS completed) pathway.
- Further offtake agreements likely.** While the Tesla agreement spotlights spodumene, further offtake agreements are likely for PLL's lithium hydroxide with EV OEMs or battery players.
- Cash bolstered to fund studies.** Following its re-rating PLL raised US\$58M (A\$81M) equity, bringing pro-forma cash to A\$107M (US\$75M). We believe PLL is now fully funded to complete its merchant Plant DFS and FID, as well as progress the Integrated Plant to a PFS/DFS, including mine.
- Lithium prices at inflection point.** We downgrade our lithium price forecasts. However market sources have reported a turnaround in China carbonate prices which likely signal a turning point for other lithium minerals.

Valuation and Earnings:

- We downgrade our steady-state EBITDA forecast on lower lithium prices, but have brought forward PLL's maiden earnings as we now expect the mine to be developed sooner on the back of the Tesla agreement.**
- Valuation increases to \$0.39 from \$0.24.** Following the Tesla agreement we reduce our valuation discount to 0.68x NPV (prior 0.5x) and assume lower equity dilution for future funding. Together with bringing earnings forward, these have more than offset the impact of lower lithium prices on our valuation.

Recommendation:

- We upgrade our recommendation to Buy from Speculative Buy, and increase our 12-month share price target to \$0.39 from \$0.24,** based on our 0.68x price/NPV. Catalysts for the share price include Merchant plant DFS; Increase in Resources; Integrated plant PFS; Further offtake agreements; Chemical plant permitting approvals; and Improving lithium markets.

Disclosures

The analyst, Foster Stockbroking and associated entities, and Cranport Pty Ltd do not own PLL securities.

Refer disclosures at end of report for details.

Foster Stockbroking 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.

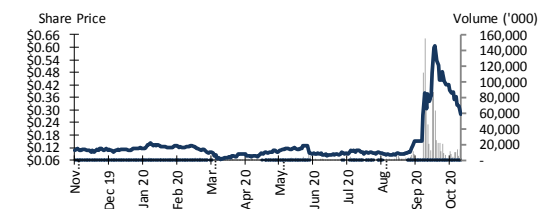
Refer details end of report.

Recommendation	Buy			
Previous	Speculative Buy			
Risk	High			
Price Target	\$0.39			
Previous	\$0.24			
Valuation	\$0.39			
Methodology	DCF			
Share Price (A\$)	\$ 0.280			
ASX Code	PLL			
52 week low - high (A\$)	0.062-0.66			
Capital structure				
Shares on Issue (M)	1,386			
Market Cap (A\$M)	388			
Net Cash/(Debt) (A\$M)	107			
EV (A\$M)	281			
Options (M)	50			
Performance rights (M)	6			
Fully diluted EV (\$M)	295			
12mth Ave Daily Volume ('000)	4,260			
Estimates y/e Jun	2020a	2021e	2022e	2023e
Sales US\$M	0.0	0.0	0.0	0.0
EBITDA US\$M	-6.5	-6.9	-6.9	-7.0
NPAT adj US\$M	-6.4	-6.6	-5.6	-5.8
EPS adj US\$	-0.01	0.00	0.00	0.00

Substantial shareholders

Bank of New York Mellon Corporation	56.7%
Australian Super Pty Ltd	7.6%
U'writers-Evercore,Canacccord,Fordham,Loop,Roth	6.4%
FIL Ltd	6.2%

Share Price Graph



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