

# Peninsula Energy Ltd

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## Peninsula Energy's US\$50 per pound uranium sales contracts to 2030 generate cash while low pH operations gain approval

Peninsula Energy Ltd (ASX:PEN) is hitting its straps with the uranium producer exceeding the top end of production guidance of 40,000 pounds at its Lance project in the March quarter.

In early April, the company submitted a request to the Wyoming Department of Environmental Quality (WDEQ) to allow the use of a low-pH recovery solution in the Ross Permit Area of the project in the US state of Wyoming.

This would substantially lower production costs.

Before the uranium bears dismiss Peninsula due to the flagging commodity price, it needs to be noted that the company is currently selling uranium well above the spot price.

### First-half realised price of US\$50 per pound

In the six months to December 31, 2018, Peninsula sold 132,934 pounds of uranium at an average realised cash price of US\$50 per pound.

Of these deliveries, 92,934 pounds of uranium was from material sourced entirely from the Lance projects and 40,000 pounds was purchased from the market.

Furthermore, forward sales agreements with a weighted price of more than US\$50 per pound extend to 2030.

Bear in mind that should approvals be forthcoming, a low pH, low-cost, high margin Lance project will be producing well before then.

### Permit to mine is pending

**Price:** A\$0.275

**Market Cap:** A\$63.69M

#### 1 Year Share Price Graph



#### Share Information

**Code:** PEN

**Listing:** ASX

**52 week High Low**  
0.485p 0.22p

**Sector:** Mining

**Website:** [www.pel.net.au](http://www.pel.net.au)

#### Company Synopsis:

*Peninsula Energy Ltd (ASX:PEN) is listed on the Australian Securities Exchange.*

#### Author:

**Proactive Investors Australia**

**+61 (0)2 9280 0700**

**action@proactiveinvestors.com.au**

Approval for the use of the low pH recovery solution would effectively represent a permit to mine (PTM).

Management noted the extensive research and preliminary work undertaken in the lead up to the PTM lodgement.

Managing director and chief executive Wayne Heili said: "The submission of the PTM (Permit to Mine) amendment request is the culmination of many months of research.

"Extensive test work and analysis aimed at greatly enhancing the uranium recovery process at Lance has been undertaken and the submission of the PTM marks an important milestone in the pathway to low pH ISR operations."

### **Low pH has always been the end game**

Transitioning to a low pH recovery solution has always been a key operational goal for the group.

Using this form of production, Peninsula could potentially align the operating performance and cost profile of Lance with industry-leading global uranium projects.

It was only last week that the company confirmed that it was in a robust financial position to progress with such a project, having received support from its major shareholders.

### **Convertible loan provides certainty during transition**

On April 20, Peninsula entered into binding offer letters with major shareholders Resource Capital Fund VI LP (RCF VI) and Pala Investments Ltd, a show of faith in the company's future.

The new US\$17 million facility involves the extension of the maturity date of the existing convertible note facility by two years to April 22, 2020.

Wayne Heili said: "Peninsula is pleased to have secured this extension to the convertible loan facility with two of our major shareholders.

"The two-year extension will allow Peninsula to achieve a number of important project milestones well before the new maturity date.

"This will greatly assist the company on its path to transition to low pH operations which are expected to significantly lower operating costs."

Following this payment, Peninsula's cash position remains strong at about US\$20 million.

### **History demonstrates Peninsula's resilience**

Step back to 2010/2011 when the uranium price had fallen from about US\$100 per pound to US\$40 per pound and you will see that Peninsula's share price was in a strong upward trajectory.

The four-fold increase to about \$6.00 was predominantly driven by outstanding exploration results at Lance.

### **Long-term uranium price is the focus**

Since 2011, the uranium price has had a virtually uninterrupted decline to around the US\$20 per pound mark where it seems to have found support.

However, note that the following chart has two different prices.

The lower is the spot price, while the higher, which is the long-term uranium price, has been hovering in the vicinity of US\$30 per pound.

As a company that has forward sales in place well above the long-term price, and is looking to bring low-cost production to market, the long-term price is more relevant.

### **Peninsula has defied price gyrations before**

It is important to note that during that steep decline in the uranium price, Peninsula released its definitive feasibility study for the Lance project and investors liked what they saw.

So much so that the company's shares increased three-fold to about \$3.00 in the space of a month.

Today, Peninsula is trading in the vicinity of 27 cents, having gained about 20% after delivering a strong March quarter production performance.

The question now is whether this is the start of a share price recovery with investors finally acknowledging its strong production and sales profile.

This certainly appears overdue but should the PTM be forthcoming one would expect a substantial rerating.

### **DFS financial metrics don't reflect low pH operation**

While the definitive feasibility study (DFS) showed excellent financial metrics, the expanded economic study (EES) was based on uranium prices ranging between about US\$63 per pound and US\$80 per pound between 2013 and 2022.

With a steady-state total production cost of about US\$31 per pound, the Lance project isn't economically viable at a spot price of US\$22 per pound, though not

far off the futures price.

However, as the following chart indicates, production costs for low pH producers range from about US\$10 per pound to US\$30 per pound, with most sitting under the US\$20 mark.

Even if Peninsula's production costs were at the upper end of that scale at around US\$25 per pound, it would still be in the money based on the current long-term uranium price.

Furthermore, pre-2030 production margins would be in the vicinity of 100% based on the company's current forward sales contract price.

#### **Forward sales to generate US\$340 million**

Peninsula has forward sales contracts for 6.6 million pounds of uranium at a price point of about US\$52 per pound through to 2030.

These are substantially higher prices to the prevailing spot or long-term price and management is forecasting that they will generate sales revenue of US\$340 million.

The uranium under contract is for delivery to major utilities in the US and Europe, representing reliable end markets.

These contracts generate substantial earnings while allowing the company to retain significant quantities of planned uranium production for contracting during future periods.

In the current low-price environment, Peninsula has contracted to purchase 900,000 pounds of uranium over the next three years at an average cost of US\$25 per pound.

Consequently, as an established player with steady-state production, even in the low-price environment, Peninsula is still in a position to generate cash.

#### **Exceeds guidance in March quarter**

Peninsula produced 43,638 of uranium from its Lance project during the three months to March 31, 2018, representing a quarter-on-quarter increase of 12%.

Wayne Heili said: "The most recent quarter continues our precedent of achieving consecutively higher quarter-over-quarter production levels at Lance.

"We are pleased to report production levels for the most recent quarter that exceed the upper band of our 30,000 to 40,000 pounds."

### **Daily production rates continue to improve**

This is the production range is forecast during the transition phase to low pH operations.

The daily production rate continued to improve through the March quarter, realising an average of 485 pounds of uranium per day during the quarter.

This compares with an average of 427 pounds per day during the December quarter.

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Contact us +61 (0)2 9280 0700 [action@proactiveinvestors.com.au](mailto:action@proactiveinvestors.com.au)

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