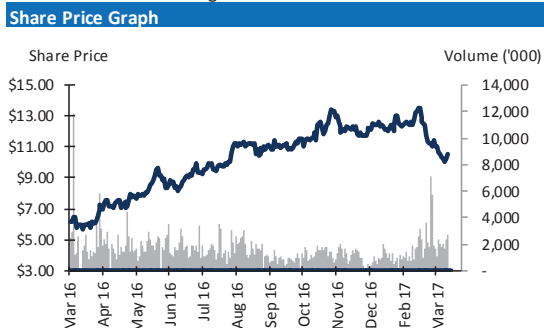




Mineral Resources Limited (MIN) – BUY, PT \$16.05

Market ignoring growth upside

Recommendation	BUY
Previous	Buy
Risk	High
Price Target	\$ 16.05
Previous Target	\$ 15.08
Share Price (A\$)	\$ 10.83
ASX Code	MIN
52 week low - high (A\$)	5.62-13.91
Forecast dividend yield (12 mth fwd)	6.0%
Capital structure	
Shares on Issue (M)	187
Market Cap (A\$M)	2,026
Net Cash/(Debt) (A\$M)	85
EV (A\$m)	1,941
Options on issue (M)	0
12mth Av Daily Volume ('000)	1,614
Board	
Peter Wade	Non-Executive Chairman
Chris Ellison	Managing Director
Kelvin Flynn	Non-Executive Director
James McClements	Non-Executive Director
Timothy Roberts	Non-Executive Director
Major Shareholders	
Chris Ellison	13.3%
Perpetual	5.1%
Vinva Investment Management	5.0%



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 The analyst owns no MIN shares.

Talking Point mostly discusses stocks for which Foster Stockbroking does not provide formal research coverage. It combines both the dealing desk's market view and basic research analysis. The aim is to offer clients additional investment ideas that lie outside the firm's universe of formally covered stocks. Occasionally, some stocks under formal research coverage will also be discussed in Talking Point.

Event:

- We revisit the upside opportunities available to MIN including continued support in iron ore spot prices, incipient Wodgina lithium DSO, and an increased forecast dividend yield.

Analysis:

- We have rerun our model with **upgraded iron ore forecasts** of US\$75, US\$70, US\$65 for FY17 through to FY19, respectively, and retain an AUD/USD currency forecast of \$0.74 over this period. We now forecast EBITDA of \$636M in FY18e.
- We view the **Wodgina 1.3% lithium DSO** has the potential to add an incremental \$95 million in FY18e EBITDA at a 2mtpa run rate, assuming a \$48/t operating margin. First shipment is targeted for April 2017. We view this as a prudent and opportunistic path to early cash flow from the Wodgina asset.
- The **second shipment** of 16,662t 6% and 4% spodumene out of Mt Marion departed Kwinana on 14 March, with 18,000t targeted for the April 2017 shipment.
- We see **further upside** given our relatively conservative assumptions around spodumene prices, particularly in light of GXY's recently announced offtake agreement citing US\$905/tonne FOB for 6.0% Li₂O.
- MIN is targeting **crushing capacity upgrades** to come with planned 20% p.a. increases in shipments in FY18 and FY19. We have included these numbers in our numbers for the Mining Services segment although we have risked the crushing capacity increases over the next two years.
- Dividend yield.** Following the recent price pullback, the dividend yield looks even more attractive. We have upgraded our forecast dividends over the coming 12 months, and forecast a 2H17 35 cps dividend and a 1H18 30 cps dividend to align the payout closer to MIN's historical 50% payout ratio. Our forecasts imply a 6.0% 12 month forward forecast dividend yield.

Earnings and Valuation:

- We view the company as attractively valued considering the company generates significant cash at current iron ore prices, while the market is ignoring considerable upside opportunity in the form of Wodgina Lithium DSO. We have a valuation of \$16.05 based on blended DCF analysis and EV/EBITDA (FY18e) (33%/67%) methodologies. Applying only a 5x EV/EBITDA (FY18e) multiple, we value MIN at \$17.44.

Recommendation:

- We maintain a **Buy recommendation** on MIN based on its relative valuation with an increased **price target of \$16.05** (previously \$15.08), in line with our blended DCF and EV/EBITDA (FY18e) valuation.