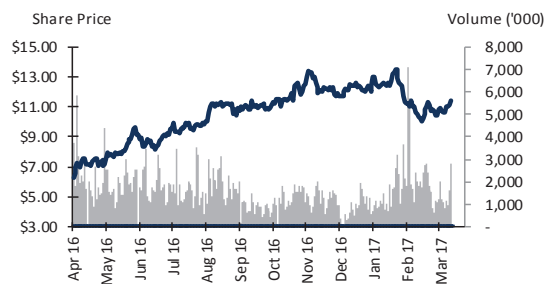




## Mineral Resources Limited (MIN) – BUY, PT \$16.05

Look through valuation of MIN's Mt Marion stake at \$400M

Recommendation	BUY
Previous	Buy
Risk	High
Price Target	\$ 16.05
Previous Target	\$ 16.05
Share Price (A\$)	\$ 11.40
ASX Code	MIN
52 week low - high (A\$)	6.29-13.54
Forecast dividend yield (12 mth fwd)	5.7%
Capital structure	
Shares on Issue (M)	187
<b>Market Cap (A\$M)</b>	<b>2,132</b>
Net Cash/(Debt) (A\$M)	85
<b>EV (A\$m)</b>	<b>2,047</b>
Options on issue (M)	0
12mth Av Daily Volume ('000)	1,560
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	12.3%
Thornburg Investment Management	6.0%
Perpetual	5.1%
Vinva Investment Management	5.0%
Share Price Graph	



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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:

- Neometals Limited (NMT) has announced its intention to sell its 13.8% stake in the Mt Marion project.

### Analysis:

- NMT gave notice to its JV partners on 23 March of its intention to sell its 13.8% stake in the Mt Marion project vehicle, Reed Industrial Minerals Pty Ltd (RIM). The proposed sale price is US\$96M (A\$128M). The other JV partners in RIM are Process Minerals International Pty Ltd (PMI), a wholly owned subsidiary of MIN, with a 43.1% stake, and Ganfeng Lithium with the remaining 43.1% stake.
- MIN and Ganfeng have 30 days (until 22 April 2017) from receiving the sale notice to exercise its first right of refusal to buy NMT's share in RIM.
- Ganfeng has set a meeting to seek shareholder approval to exercise its right; no formal announcement as to its decision has been made. Ganfeng remains a natural buyer of the NMT stake having previously secured a life-of-mine take-or-pay offtake agreement for Mt Marion production.
- If both MIN and Ganfeng exercise their pre-emptive rights, each will be entitled to purchase one half of NMT's shares, i.e. 6.9% of RIM each. If one party declines, the other party may purchase NMT's entire 13.8% stake, and gain control of the project vehicle. If both parties decline to exercise, NMT can then sell its stake to a third party. No third party has been disclosed as yet.
- Separate from the exercise of pre-emptive rights, if NMT ceases to be a shareholder of RIM, MIN's offtake share automatically increases to 51% of Mt Marion production from February 2020. This is triggered if NMT ceases to be a RIM shareholder, and irrespective of the final RIM ownership in any eventual sale.
- The proposed NMT sale price provides a look through valuation for the Mt Marion project of ~US\$700M, or US\$300M for MIN's 43.1% stake (A\$400M). We value MIN's stake at A\$387M. MIN had also recently foreshadowed its intent to monetise its own 43.1% stake in Mt Marion, and NMT's proposal underlines the potential Mt Marion valuation.

### Earnings, Valuation and Recommendation:

- We remain of the view the company's shares are attractively priced considering the company generates significant cash at current iron ore prices notwithstanding recent price pressures. The market has received a timely reminder of MIN's diversification into the burgeoning lithium space and MIN retains considerable upside opportunity from Wodgina Lithium DSO. We reiterate our valuation of \$16.05 based on blended DCF analysis and EV/EBITDA (FY18e) (33%/67%) methodologies.
- We maintain a Buy recommendation on MIN based on its relative valuation with a price target of \$16.05, in line with our blended DCF and EV/EBITDA (FY18e) valuation.
- Upcoming catalysts for the stock include the end of the 30 day notice period on 22 April 2017, upcoming Wodgina Lithium DSO, and increases in the iron ore price.