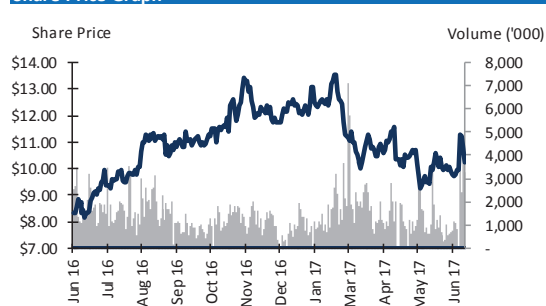




Mineral Resources Limited (MIN) – BUY, PT \$14.05

Meaningful lithium exposure offsets weaker iron ore sentiment

Recommendation	BUY
Previous	Buy
Risk	High
Price Target	\$ 14.05
Previous Target	\$ 16.05
Share Price (A\$)	\$ 10.38
ASX Code	MIN
52 week low - high (A\$)	8.18-13.54
Forecast dividend yield (12 mth fwd)	6.3%
Capital structure	
Shares on Issue (M)	187
Market Cap (A\$M)	1,944
Net Cash/(Debt) (A\$M)	85
EV (A\$m)	1,859
Options on issue (M)	0
12mth Av Daily Volume ('000)	1,428
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%
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 have revised our commodity forecasts and revisit MIN's meaningful lithium exposure.

Analysis:

- **Revised forecasts.** We have revised **iron ore forecasts** of US\$70/t, US\$60/t, US\$55/t, for FY17e through to FY19e, respectively, and retain an **AUD/USD currency forecast of \$0.74** over this period. We have **increased spodumene 6% forecasts** of US\$736/t and US\$682/t in FY18e and FY19e. We now forecast EBITDA of \$506M in FY18e.
- **Significant lithium EBITDA contribution.** We forecast FY18e EBITDA contribution from **lithium mining** (spodumene and DSO) to make up **30% of FY18e EBITDA**. This is notable progress from nil lithium exposure in FY16a. This is in contrast to the 27% contribution from iron ore mining to FY18e EBITDA. We see this trend continuing into FY19e, and view this as a watershed in MIN's changing EBITDA profile. The recent rally in our view reflects the growing market appreciation of the world class potential in MIN's Wodgina and Mt Marion assets, which we have previously highlighted.
- **Early cash flow from Wodgina lithium DSO.** We continue to hold the view **Wodgina 1.3% lithium DSO** is a prudent lower-risk pathway to cash flow from this asset, while management plans development. We forecast 750kt lithium DSO production in FY17e, ramping up to 2mtpa in FY18e. Wodgina DSO has the potential to add an incremental \$95M to FY18e EBITDA at a 2mtpa run rate, assuming a \$48/t operating margin.
- **Spodumene pricing upside.** We see **further spodumene pricing upside** given our relatively conservative assumptions around spodumene prices, particularly in light of GXY's offtake agreement of US\$905/tonne FOB for 6.0% Li₂O. Ganfeng offtake of Mt Marion concentrate will move from US\$750/t to a carbonate and hydroxide pricing mechanism from 1 July.
- **Crushing capacity increased.** MIN has completed its **crushing capacity upgrades** sooner than we had originally anticipated with the 20% increase set for FY18e. We have now included this upgrade in our MSP segment FY18e EBITDA forecast of \$232M.
- **Attractive dividend yield.** Potential yield continues to look attractive with robust cash flow supportive of a 2H17e 35 cps dividend and a 1H18e 30 cps dividend which aligns the payout closer to MIN's historical 50% payout ratio. Our forecasts imply a 6.4% 12-month forward dividend yield.

Earnings and Valuation:

- We view MIN as **attractively valued considering the company still generates healthy cash at current iron ore prices**, while the market is coming to appreciate the considerable upside opportunity from Wodgina Lithium DSO. We have a valuation of \$14.05 based on blended DCF analysis and EV/EBITDA (FY18e) (50%/50%) methodologies.

Recommendation:

- We maintain a **Buy recommendation** on MIN based on its relative valuation with a reduced **price target of \$14.05** (previously \$16.05), in line with our blended DCF and EV/EBITDA (FY18e) valuation.