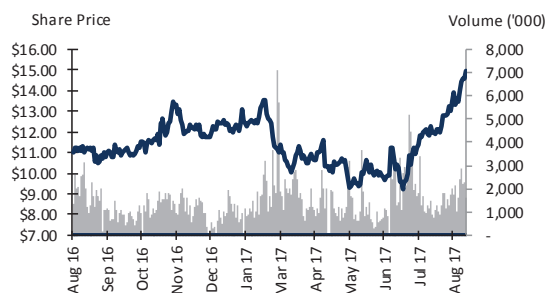




Mineral Resources Limited (MIN) – BUY, PT \$18.32

Further growth opportunities ahead

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$ 18.32			
Previous Target	\$ 14.05			
Share Price (A\$)	\$ 14.98			
ASX Code	MIN			
52 week low - high (A\$)	9.22-14.98			
Forecast dividend yield (12 mth fwd)	4.8%			
Capital structure				
Shares on Issue (M)	187			
Market Cap (A\$M)	2,806			
Net Cash/(Debt) (A\$M)	104			
EV (A\$m)	2,703			
Options on issue (M)	0			
12mth Av Daily Volume ('000)	1,445			
June end (A\$M)	2017a	2018e	2019e	2020e
Sales	1,470.0	1,787.1	1,802.6	1,752.6
EBITDA, underlying	461.5	584.5	579.8	537.0
NPAT, underlying	205.7	267.8	244.8	192.4
Adj EPS diluted, \$	1.10	1.43	1.31	1.03
PER x diluted	13.6	10.5	11.4	14.6
EV/EBITDA x	5.9	4.6	4.7	5.0
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%			
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:

- FY17 result; revised assumptions; FY18e outlook.

Analysis:

- **Lithium will power the next leg of MIN's trajectory. Management are targeting 4.25Mt Wodgina lithium DSO for FY18e, and 4-5Mtpa target rate for the next four years thereafter. This is in addition to a planned 500ktpa 6% spodumene at Wodgina with production to start Q3CY18e.** With the increased production target, Wodgina lithium DSO now has the potential to add an incremental \$190M to FY18e EBITDA at a 4.25Mtpa run rate, assuming a \$45/t operating margin.
- **Mount Marion upgrade to produce 400ktpa (100% basis) of all 6% spodumene by Q3FY18 will be earnings accretive and bolster lithium EBITDA in FY18e.** MIN have a 43.1% stake in Mount Marion, with no further news to date on the sell down of its stake.
- **Pleasing return to form for annuity style earnings out of the Mining Services segment:** we forecast \$220M contribution in FY18e from this segment, which saw a strong performance in 2H17. MIN expect a full year contribution from the increased crushing capacity completed in the most recent half.
- **Near term opportunities in the form of BOSS, carbon fibre trays to yield material operating efficiencies.** BOSS has the potential to reduce haulage costs by ~80%, while carbon fibre trays can add 10% additional payloads to MIN's existing fleet of dump trucks and rail wagons. BOSS is a longer dated opportunity for MIN with a proposed time line of 18 months, while carbon fibre facilities are currently being tested.
- **EBITDA from mining services and lithium mining alone are almost sufficient to reach management's conservative FY18e EBITDA guidance of at least \$500M. We forecast \$585M in FY18e EBITDA.** Minor adjustments to forecasts however iron ore still the swing factor for an impressive FY18e.
- **Forecast dividend yield of 4.8%** underpinned by strong cash generation, and a return to historical payout levels of ~50%.

Earnings and Valuation:

- **We view MIN as attractively valued considering the company will generate healthy cash from its mining services resurgence, growing lithium exposure, and the fact that the company makes money at current iron ore discounts.** We now forecast FY18e EBITDA of \$585M (previously \$506M), and FY18e NPAT of \$268M (previously \$266M). We have a valuation of \$18.32 based on blended DCF analysis and EV/EBITDA (FY18e) (50%/50%) methodologies.

Recommendation:

- We maintain a **Buy recommendation** on MIN with an increased **price target of \$18.32** (previously \$14.05), in line with our blended DCF and EV/EBITDA (FY18e) valuation.