



Kidman Resources Ltd (KDR.ASX)

Developing a world class asset

Event:

- We initiate research coverage on Kidman Resources Ltd (KDR).

Investment Highlights:

- World class asset.** KDR owns the Mt Holland lithium project in south Western Australia, which comprises the Earl Grey lithium deposit containing 128Mt at 1.44% Li₂O. Additionally there is an exploration target of 75-100Mt at 1.3-1.5% which extends north of Earl Grey. The deposit is relatively flat lying and comes to near surface, making for low mining cost and strip (1.9x post overburden removal).
- NPV₁₀ \$793M just for base case.** We estimate an NPV₁₀ \$793M for Earl Grey based on a 25 year mine life at 2Mtpa. We assume all-in-sustaining costs of US\$269/t, CFR basis. We assume 60% lithium recovery – as per scoping – but believe this to be conservative.
- JV with SQM minimises funding and operating risk.** KDR entered into a JV agreement with Chilean lithium giant SQM over Mt Holland whereby KDR will dilute to 50% ownership in return for US\$30M of upfront cash payments and US\$80M of capital contributions from SQM. We believe this will likely fund KDR to mine commissioning. We forecast first mine production beginning FY20e.
- Refinery to be examined in parallel.** SQM is proposing a downstream lithium carbonate/hydroxide refinery of 37ktpa LCE capacity, with KDR offered an option to participate up to a 50% interest. While a scoping study has yet to be released, we estimate capex of \$500M (100%) and incremental NPV of \$390M (100%). KDR intends to take up its option and we factor the refinery in our valuation and forecasts. We forecast first carbonate production beginning FY21e.
- Compelling case for expansion.** While KDR has not formally announced any expansion of mine at this stage, we believe that the large size of Earl Grey, as well as Exploration Target, means that the case for bringing forward cashflows and significantly increasing NPV is compelling. We have factored in an expansion of mine (to 5Mtpa) and refinery (92kt LCE) in our valuation but have aggressively discounted these cases given that it is still early days.

Earnings and Valuation:

- We forecast KDR to report NPAT of \$29M both in FY18e and FY19e, as a result of upfront cash payments and capital contributions from SQM being booked as profit on sell-down of its interest in Mt Holland. However we forecast underlying losses chiefly due to corporate costs. We forecast first earnings from sales of spodumene in FY20e.
- We derive a risked valuation of \$1.99/share for KDR, and unrisked of \$3.85/share. The major component of our risked valuation is the base case 2Mtpa Earl Grey mine, followed by potential plant expansion to 5Mtpa, the proposed 37ktpa LCE refinery, and refinery expansion.

Recommendation:

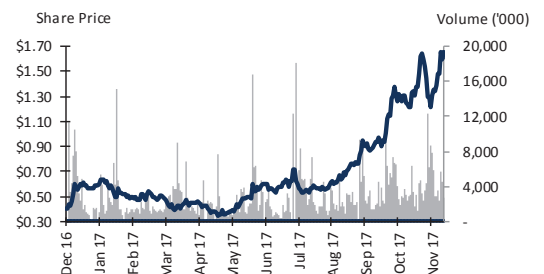
- We initiate with a Buy recommendation and price target of \$1.99/share, based on our risked valuation. Catalysts include execution of JV; Refinery study; Resource upgrade; and Decision to mine.

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|---------------------------------------|----------------|--------------|--------------|--------------|
| Recommendation | Buy | | | |
| Previous | n/a | | | |
| Risk | High | | | |
| Price Target | \$1.99 | | | |
| Previous | n/a | | | |
| Share Price (A\$) | \$ 1.65 | | | |
| ASX Code | KDR | | | |
| 52 week low - high (A\$) | 0.335-1.68 | | | |
| Valuation (A\$/share) - risked | \$1.99 | | | |
| Methodology | DCF | | | |
| Capital structure | | | | |
| Shares on Issue (M) | 350 | | | |
| Market Cap (A\$M) | 578 | | | |
| Net Cash/(Debt) (A\$M) | -2 | | | |
| EV (A\$M) | 579 | | | |
| Options (M) | 50 | | | |
| Fully diluted EV (\$M) | 661 | | | |
| 12mth Ave Daily Volume ('000) | 8,936 | | | |
| Y/e Jun (A\$M) | 2017a | 2018e | 2019e | 2020e |
| Sales | 0.0 | 0.0 | 0.0 | 68.4 |
| Adj EBITDA | -6.7 | -13.5 | -10.0 | 37.4 |
| Adj NPAT underlying | -7.2 | -14.1 | -9.5 | 19.5 |
| Reported NPAT | -31.3 | 29.4 | 29.1 | 19.5 |
| Adj EPS diluted \$ | -0.02 | -0.04 | -0.02 | 0.04 |
| PER x diluted | nm | nm | nm | 43.3 |
| EV/EBITDA x | nm | nm | nm | 16.5 |

| | |
|----------------|------------------------|
| Board | |
| Martin Donohue | Managing Director |
| David Southam | Non-Executive Director |
| Brad Evans | Non-Executive Chairman |

| | |
|---------------------------------|------|
| Substantial shareholders | |
| EDM Nominees Pty Ltd | 9.3% |

Share Price Graph



Analyst: Mark Fichera +612 9993 8162
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The analyst owns no securities in KDR.

Foster Stockbroking and associated entities (excluding Carnport Pty Ltd) hold 185,000 KDR shares.

Cranport Pty Ltd does not own securities in KDR.