



Spooked Market from SQM-CORFO Deal Presents Lithium Buying Opportunities

Kidman Resources Ltd	KDR
Recommendation	Buy
Risk	High
Price Target (A\$)	\$1.99
Share Price (A\$)	\$1.76
Market Cap (A\$M)	618
Mineral Resources Ltd	MIN
Recommendation	Buy
Risk	High
Price Target (A\$)	\$18.32
Share Price (A\$)	\$18.80
Market Cap (A\$M)	3,524
Piedmont Lithium Ltd	PLL
Recommendation	Speculative Buy
Risk	Very High
Price Target (A\$)	\$0.30
Share Price (A\$)	\$0.180
Market Cap (A\$M)	100
Pilbara Minerals Ltd	PLS
Recommendation	Buy
Risk	High
Price Target (A\$)	\$1.04
Share Price (A\$)	\$0.945
Market Cap (A\$M)	1,559

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The analyst does not own KDR, MIN, PLL or PLS securities. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 185,000 KDR shares, 1,164,063 PLL shares, and 254,462 PLS shares, and do not own MIN securities. Cranport Pty Ltd owns 150,000 KDR shares, 20,000 MIN shares, and 4,000,000 PLL shares, and does not own PLS securities.

Foster Stockbroking acted as Sole Lead Manager to \$16M placement of 100M PLL shares at \$0.16/share in October 2017. Foster Stockbroking received fees for this service.

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Event:

- SQM-CORFO agreement.

Analysis and Investment Theme:

- Chilean chemicals company SQM has reached an agreement with the Chilean agency CORFO to allow a **significant production quota increase (2.2Mt lithium carbonate equivalent to 2030, previously 1Mt to 2022), and will also pay US\$17.5M** to finalise the dispute.
- SQM has also agreed to amendments to the contracts under which SQM is permitted to mine in the Salar de Atacama, with a **new schedule of increased lease payments based on final sales prices subject to a progressive schedule**. This replaces the current rate of 6.8% on FOB sales; assuming **recent US\$12,600/t lithium carbonate prices, the new lease rate is 19.1%, while the highest tiered lease payment rate is 40% on carbonate price in excess of US\$10,000/t**.
- SQM has also agreed to terms giving **Chilean value added production first look at 25% of production at favourable terms**.
- The agreement's increased lease rates and local content requirements again **highlights political risk, and points to SQM's prescience in forming a JV with Kidman Resources (KDR)** to develop its WA hard rock lithium project at Mt Holland.
- We believe it highlights **SQM's strategic desire to diversify its own domestic sovereign risk and source risk**. In particular, it emphasises SQM's original decision to pivot into hard rock production to add to its brine expertise, with quicker times to market from production and lower capex requirements, in spite of generally lower opex advantages due to brine production.
- We also hold the view it points to the **near term shortfall in supply which will not be addressed by brine capacity increases** (3-5 years), and we expect it to be **largely accounted for by hard rock sources** (KDR carbonate from FY21e, MIN carbonate from Q4 FY20e and currently producing DSO and spodumene, PLS spodumene from FY19e).
- The significantly increased lease payment rates will push SQM to look for a **more optimal mix of the global cost structures and underlines increased future value of Mt Holland to SQM, and hard rock sources more generally**.

Recommendation:

- We note the recent price pullback (up to 20%) across lithium names creates a buying opportunity and reiterate the following recommendations for hard rock lithium exposed companies under coverage:
 - **Kidman Resources (KDR), Buy, PT \$1.99.**
 - **Mineral Resources (MIN), Buy, PT \$18.32.**
 - **Piedmont Lithium (PLL), Speculative Buy, PT \$0.30.**
 - **Pilbara Minerals (PLS), Buy, PT \$1.04.**