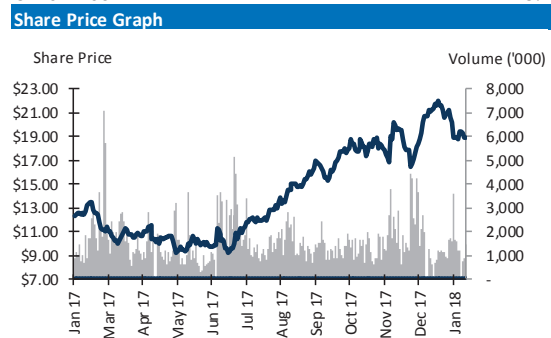




Mineral Resources Limited (MIN)

Adding Wodgina carbonate to the mix as contest for AWE intensifies

Recommendation		Buy			
Previous		Buy			
Risk		High			
Price Target		\$ 22.57			
Previous Target		\$ 18.32			
Share Price (A\$)		\$ 18.82			
ASX Code		MIN			
52 week low - high (A\$)		9.22-22.01			
Forecast dividend yield (12 mth fwd)		3.8%			
Capital structure					
Shares on Issue (M)		187			
Market Cap (A\$M)		3,526			
Net Cash/(Debt) (A\$M)		104			
EV (A\$m)		3,422			
Options on issue (M)		0			
12mth Av Daily Volume ('000)		1,579			
June end (A\$M)		2017a	2018e	2019e	2020e
Sales		1,470.0	2,231.9	2,303.6	2,503.7
EBITDA, underlying		461.5	563.9	759.4	802.4
NPAT, underlying		205.7	253.4	370.3	377.5
Adj EPS diluted, \$		1.10	1.35	1.98	2.02
PER x diluted		17.1	13.9	9.5	9.3
EV/EBITDA x		7.4	6.1	4.5	4.3
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		11.3%			



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The analyst does not own MIN securities.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) do not own MIN securities.

Cranport Pty Ltd owns 20,000 MIN securities.

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:

- Q2FY18a report; AWE update; Wodgina update; revised assumptions.

Analysis:

- Mitsui has made an all cash \$0.95/share bid for AWE shares, compared to MIN's offer of \$0.83/share bid (50% scrip, 50% cash). Mitsui's offer values AWE at ~\$600M and is conditional on AWE Board terminating its deed with MIN by COB Friday 2 February. Under the MIN-AWE scheme, MIN has the right to make a counter proposal.
- MIN's rationale for its AWE bid was to secure cost effective, long term power supply, and in particular for a suite of its own energy intensive projects (Wodgina carbonate and spodumene, graphite) in the medium term. In spite of Mitsui's latest bid, and MIN's strong case for Waitsia, we remain hopeful MIN remain disciplined (cf. Baosteel and Aquila) to avoid a bidding war and acquiring the sought after Waitsia field at any cost.
- Q2FY18a report with lithium providing highlights including Wodgina DSO production ramp and market acceptance of product, continuing favourable up trend in spodumene pricing, while Iron Valley remains cash positive even though grade discounts persist for fines product.
- MIN had previously announced incremental increases in FY18e lithium production: MIN now expect to be at upper end of 4.5-4.75Mt lithium DSO exports (previously 4.25Mt), and 450kt Mt Marion spodumene exported (100% basis, previously 400kt). Other key drivers for FY18e are unchanged: 130Mt crushing capacity, 13.3Mt iron ore exports.
- FY18e capex range has also been revised up to \$300-350M, from \$200-250M, as timeframe for Wodgina development accelerates. MIN are now targeting a three module 750ktpa 6% spodumene plant with production to start Q3CY18e (previously 500ktpa).
- MIN also contemplate a 50ktpa lithium carbonate plant with expansion capacity to 100ktpa, commencing development in July 2018 with commissioning during Q2CY20e. With a clearer timeline and Board approval, we have now added this to our model in outer years.

Earnings and Valuation:

- We now forecast FY18e and FY19e EBITDA of \$564M and \$760M (previously \$585M and \$580M), and NPAT of \$253 and \$370M (\$268M and \$245M) resulting from revised commodity and currency assumptions, as well as adding Wodgina carbonate plant to our model.
- We have increased our valuation of MIN to \$22.57 from \$18.32, based on our blended DCF (50%), EV/EBITDA (50%) valuation, due to increased earnings forecasts from FY19e on.

Recommendation:

- We maintain a **Buy recommendation** on MIN with an increased price target of \$22.57 (previously \$18.32), in line with our valuation.
- We believe a **near term buying opportunity for MIN** exists while the outcome of the AWE bid remains in flux. AWE notwithstanding, we are of the view MIN is attractively priced as it positions itself to take advantage of lithium demand, and well supported by its crushing business.