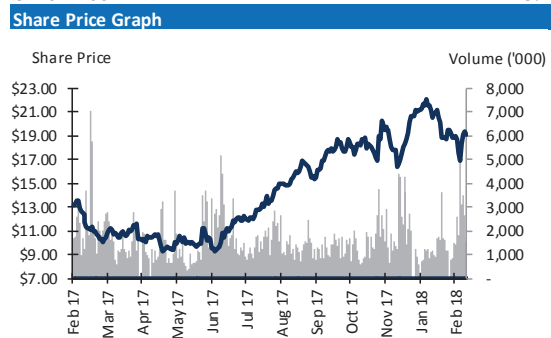




Mineral Resources Limited (MIN)

On target with solid first half

| Recommendation | | Buy | | | |
|--------------------------------------|---------|------------------------|---------|---------|-------|
| Previous | | Buy | | | |
| Risk | | High | | | |
| Price Target | | \$ 22.53 | | | |
| Previous Target | | \$ 22.57 | | | |
| Share Price (A\$) | | \$ 19.08 | | | |
| 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) | | 3,574 | | | |
| Net Cash/(Debt) (A\$M) | | 94 | | | |
| EV (A\$m) | | 3,481 | | | |
| Options on issue (M) | | 0 | | | |
| 12mth Av Daily Volume ('000) | | 1,630 | | | |
| June end (A\$M) | | 2017a | 2018e | 2019e | 2020e |
| Sales | 1,470.0 | 1,800.9 | 2,010.4 | 2,279.3 | |
| EBITDA, underlying | 461.5 | 570.5 | 753.9 | 804.2 | |
| NPAT, underlying | 205.7 | 269.2 | 385.4 | 400.5 | |
| Adj EPS diluted, \$ | 1.10 | 1.44 | 2.06 | 2.14 | |
| PER x diluted | 17.4 | 13.3 | 9.3 | 8.9 | |
| EV/EBITDA x | 7.5 | 6.1 | 4.6 | 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 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:

- 1H FY18a result.

Analysis:

- **MIN announced its 1H18a result last week. Highlights include underlying EBITDA of \$250M**, up 6% on pcp and **underlying NPAT of \$128M**, up 22% on pcp; overall the result was in line with our expectations. **1H18 dividend of 25cps, up 19% on pcp.**
- **FY18e EBITDA of at least \$500M confirmed**; main drivers were largely unchanged (130Mt crushing capacity, 4.5-4.75Mt lithium DSO exports, 450kt spodumene exports), although iron exports were reduced to 11Mt from 13.3Mt.
- **Wodgina lithium DSO EBITDA contribution of ~A\$60M for the half, with Mt Marion EBITDA contribution of A\$23M. Spodumene pricing still favourable** and MIN currently seeing Q3 FY18 sale prices of US\$900/dmt for 6% (previously US\$841/dmt), and US\$510/dmt for 4% (no prior assumption disclosed). Export weighting for 6% and 4% Mt Marion spodumene during 1H18a was ~54:46%, attracted an average A\$808/wmt, and all in cost of ~A\$550/wmt, higher than our forecast. MIN are looking to undergo optimisation to improve costs.
- **Iron ore made a positive EBITDA contribution of ~\$43M** in 1H18, as stockpiling of fines led to a greater proportion of lump sales, and a better than anticipated price realisation (88%) of the 62% fines index. No relief expected from lower grade discounts for at least 12 months; we interpret MIN will elect to continue stockpiling fines in the near term.
- **Capex for the half of \$66M implies 2H18e weighting for capex of \$235-285M. Strong net cash position of \$94M.**
- Although the race for AWE technically remains open to MIN, we interpret MIN's statement of looking at other gas assets and Perth Basin exploration programme as a **disciplined approach to AWE.**

Earnings and Valuation:

- We have made minor adjustments and now **forecast FY18e and FY19e EBITDA of \$571M and \$754M** (previously \$564M and \$760M), and **NPAT of \$269 and \$385M** (\$253M and \$370M). Higher iron ore price realisation was offset by higher than forecast FY18e spodumene production costs, as well as revised lithium DSO and mining services margins.
- We have a blended DCF (50%), EV/EBITDA (50%) valuation of **\$22.53** (previously \$22.57).

Recommendation:

- We maintain a **Buy recommendation** on MIN with a revised **price target of \$22.53 (previously \$22.57)**, broadly in line with our valuation.
- We continue to hold the view a **near term buying opportunity for MIN** exists as it enters a period of executing on a number of key ambitions including all 6% spodumene at Mt Marion, construction of spodumene trains at Wodgina, and progress on the Bulk Ore Shuttle System (BOSS).