



Kidman Resources Ltd (KDR.ASX)

Bigger, better, richer.

Event:

- Earl Grey JORC Resource upgrade; Earnings changes; PT change.

Investment Highlights:

- **KDR announced an upgrade in size of its Earl Grey JORC Resource to 189Mt from 128Mt, as well as in Li₂O grade to 1.50% from 1.44%.** 91% of the Resources was in Measured and Indicated, with the potential to underpin a mine life over 80 years at 2Mtpa, subject to successful Reserves conversion. We believe the upgrade makes the argument even more compelling for an expanded (e.g. 5Mtpa) mine case. We expect some degree of expansion to be addressed in the upcoming mine DFS.
- **Exploration potential still exists.** The company announced an additional Exploration Target of 20 to 40Mt at 1.3-1.5%. While development and feasibility studies on the mine and refinery have priorities, we expect KDR to still pursue exploration.
- **Our forecast timeline assumptions are approximately in-line with those of KDR.** We expect SQM to still give the project impetus, given the diversification of sovereign risk and shorter lead time to production vs Chilean brine. We expect DFS on the mine and concentrator with maiden Reserves in 2Q CY18e, and the initial refinery study, mine approvals, and decision to mine in late 3Q/early 4Q CY18e.
- **Western Australia Lithium (WAL) JV underway.** The JV was finalised in December 2017 and KDR received US\$5M as part of initial payment for transfer of 50% of Earl Grey. SQM's initial US\$20M payment directly in WAL - which includes KDR's share - have also commenced.

Earnings and Valuation:

- **We forecast underlying NPAT of -\$8.4M and -\$9.3M in FY18e and FY19e (prior -\$14.1M and -\$9.5M)** mostly from slight changes to corporate, studies, and exploration.
- **For FY20e we now forecast NPAT of \$8.1M (previously \$19.5M), the decline mostly due factoring a ramp-up period for initial spodumene production.**
- **NPAT forecasts from FY21e upgraded on higher LCE output.** For FY21e and beyond, we have upgraded our earnings forecasts based on both higher spodumene and lithium carbonate equivalent (LCE) production. These both stem from the higher head grade of the upgraded Earl Grey Resource. We now forecast annual spodumene production of 313kt and LCE production of 41kt LCE in our 2Mtpa base case, an increase of 7% over prior assumptions.
- **Our risked valuation of KDR increases to \$2.72/share from \$1.99, based on the higher long term earnings upgrades from higher LCE and spodumene production, partly offset by higher refinery capex.** We still attribute some value for a risked 5Mtpa expansion case.

Recommendation:

- **We maintain our Buy recommendation and increase our 12-month price target to \$2.72/share from \$1.99, based on our risked valuation.** Catalysts include DFS on mine; maiden JORC Reserve; Initial Refinery study; Mining approvals; Decision to mine; and Commencement of mine development.

Recommendation		Buy
Previous		Buy
Risk		High
Price Target		\$2.72
Previous		\$1.99
Share Price (A\$)		\$ 2.33
ASX Code		KDR
52 week low - high (A\$)		0.335-2.37
Valuation (A\$/share) - risked		\$2.72
Methodology		DCF
Capital structure		
Shares on Issue (M)		351
Market Cap (A\$M)		818
Net Cash/(Debt) (A\$M)		-1
EV (A\$M)		820
Options (M)		48
Share rights (M)		2
Fully diluted EV (\$M)		937
12mth Ave Daily Volume ('000)		3,130

Y/e Jun (A\$M)	2017a	2018e	2019e	2020e
Sales	0.8	0.0	0.0	38.4
Adj EBITDA	-6.7	-8.1	-9.8	14.5
Adj NPAT underlying	-7.2	-8.4	-9.3	8.1
Reported NPAT	-31.3	26.5	29.3	8.1
Adj EPS diluted \$	-0.02	-0.02	-0.02	0.02
PER x diluted	nm	nm	nm	107.6
EV/EBITDA x	nm	nm	nm	35.4

*Adj = underlying FSB estimate

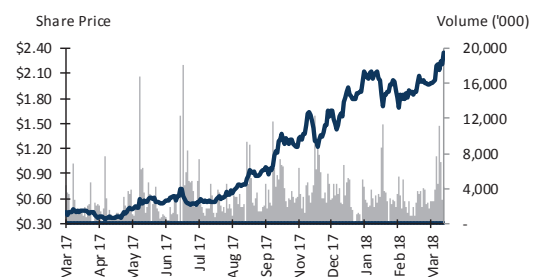
Board

Martin Donohue	Managing Director
John Pizey	Non-Executive Chairman
Aaron Colleran	Non-Executive Director
David Southam	Non-Executive Director
Brad Evans	Non-Executive Director

Substantial shareholders

EDM Nominees Pty Ltd	9.3%
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Share Price Graph



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The analyst does not own KDR securities.

Foster Stockbroking and associated entities (excluding Carnport Pty Ltd) do not own KDR securities.

Cranport Pty Ltd does not own KDR securities.

This report was prepared by Foster Stockbroking