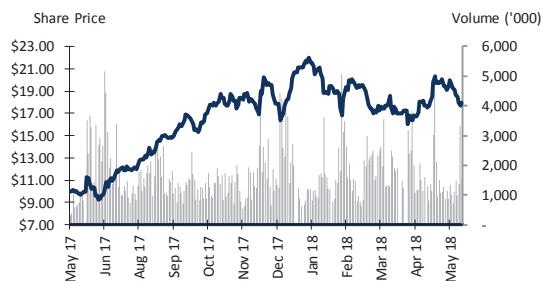




Mineral Resources Limited (MIN)

Executing on Ambitious Sweep

| | | | | |
|--------------------------------------|-----------------|--------------|--------------|--------------|
| Recommendation | Buy | | | |
| Previous | Buy | | | |
| Risk | High | | | |
| Price Target | \$ 21.65 | | | |
| Previous Target | \$ 22.53 | | | |
| Share Price (A\$) | \$ 17.99 | | | |
| ASX Code | MIN | | | |
| 52 week low - high (A\$) | 9.22-22.01 | | | |
| Forecast dividend yield (12 mth fwd) | 4.1% | | | |
| Capital structure | | | | |
| Shares on Issue (M) | 188 | | | |
| Market Cap (A\$M) | 3,377 | | | |
| Net Cash/(Debt) (A\$M) | 94 | | | |
| EV (A\$m) | 3,283 | | | |
| Options on issue (M) | 0 | | | |
| 12mth Av Daily Volume ('000) | 1,614 | | | |
| June end (A\$M) | 2017a | 2018e | 2019e | 2020e |
| Sales | 1,470.0 | 1,654.1 | 1,938.5 | 2,150.5 |
| EBITDA, underlying | 461.5 | 544.3 | 713.6 | 825.3 |
| NPAT, underlying | 205.7 | 250.8 | 357.2 | 415.2 |
| Adj EPS diluted, \$ | 1.10 | 1.34 | 1.90 | 2.20 |
| PER x diluted | 16.4 | 13.5 | 9.5 | 8.2 |
| EV/EBITDA x | 7.1 | 6.0 | 4.6 | 4.0 |
| DPS, \$ | 0.54 | 0.72 | 0.86 | 0.89 |
| Dividend yield, % | 3.0% | 4.0% | 4.8% | 4.9% |
| Major Shareholders | | | | |
| Chris Ellison | 11.3% | | | |
| Share Price Graph | | | | |



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Event:

- **Wodgina update and minority sale; AGO acquisition; guidance update; revised assumptions.**

Analysis:

- **Minority stake in Wodgina lithium project for sale.** MIN is looking to sell up to 49% interest in Wodgina, while retaining operating rights. At this early stage, the company is looking to secure partners only if acceptable terms can be secured, noting it can finance Wodgina alone if necessary.
- **Upgraded Resource stands at 233.9Mt at 1.21% Li₂O**, an increase of 18%. This includes Wodgina Reserve of 142.4Mt at 1.19% classified as Probable.
- **We value Wodgina at A\$2.2B** for DSO, spodumene, and carbonate plant. Wodgina concentrate parameters and downstream lithium processing option taking shape. The company expects the Reserve supports a 5.65Mtpa mine processing 750ktpa 6% spodumene for 29 years. Capital expenditure for a 56ktpa lithium hydroxide plant option is US\$600M.
- **1 for 571 scrip offer for AGO shares:** to bulk up iron ore tonnes and access Utah Point allocation. In concert with the proposed BOSS infrastructure this will improve iron ore cost structure for the business. Provides development potential at Coruna Downs and McPhee Creek in our view.
- **Reaffirmed FY18e EBITDA of at least \$500M:** in spite of FY18e lithium DSO exports guidance lowered to 4Mt due to adverse weather during FY18Q3a. We believe there is offset from increased 6% spodumene pricing for FY18Q4e of US\$960/t, up from US\$900/t in FY18Q3a.

Earnings and Valuation:

- We have made a number of updates to assumptions and now **forecast FY18e and FY19e EBITDA of \$544M and \$714M** (previously \$571M and \$754M), and **NPAT of \$251 and \$357M** (\$270M and \$385M).
- We have updated commodity and currency forecasts. FY18e spodumene pricing has increased, while outer year and long-term spodumene and carbonate forecasts have been reduced 2-5%.
- We have reduced FY18e volumes for DSO, iron ore, and Mt Marion spodumene.
- We derive a blended DCF (50%), EV/EBITDA (50%) valuation of **\$21.65/share** (previously \$22.53).

Recommendation:

- We maintain a **Buy recommendation on MIN with a revised price target of \$21.65/share** (previously \$22.53), 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, progress on Wodgina downstream facility, and progress on the Bulk Ore Shuttle System (BOSS); and the proposed AGO acquisition.