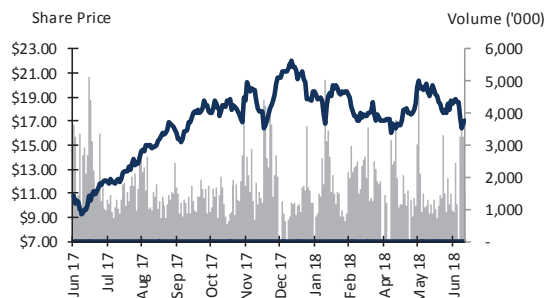




Mineral Resources Limited (MIN)

DSO Pullback for Wodgina Sale

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$ 20.02			
Previous Target	\$ 21.65			
Share Price (A\$)	\$ 17.00			
ASX Code	MIN			
52 week low - high (A\$)	9.22-22.01			
Forecast dividend yield (12 mth fwd)	4.4%			
Capital structure				
Shares on Issue (M)	188			
Market Cap (A\$M)	3,191			
Net Cash/(Debt) (A\$M)	94			
EV (A\$m)	3,097			
Options on issue (M)	0			
12mth Av Daily Volume ('000)	1,651			
June end (A\$M)	2017a	2018e	2019e	2020e
Sales	1,470.0	1,608.9	1,628.0	1,761.6
EBITDA, underlying	461.5	530.3	617.4	720.3
NPAT, underlying	205.7	241.0	289.8	341.5
Adj EPS diluted, \$	1.10	1.29	1.54	1.81
PER x diluted	15.5	13.2	11.0	9.4
EV/EBITDA x	6.7	5.8	5.0	4.3
DPS, \$	0.54	0.72	0.86	0.89
Dividend yield, %	3.2%	4.2%	5.1%	5.2%
Major Shareholders				
Chris Ellison	11.3%			
Share Price Graph				



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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 169,486 shares in MIN.
Refer to end of report for details.

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:

- **Wodgina update; lithium DSO update; FY18e guidance confirmed.**

Analysis:

- **Wodgina JV:** MIN is looking to sell a 49% interest, while reiterating it wants to retain management and operating rights for the life of mine, with a corresponding annuity contract for associated pit-to-port services. A five week due diligence window for prospective bidders opens later this month, after which non-binding indicative bids can be lodged. We expect an update to coincide with the June 18 quarterly.
- **Wodgina SC trains on schedule:** the company has confirmed three 250ktpa SC6% trains are still expected to be commissioned on October 2018, December 2018, and March 2019. The company also notes the PFS into the Wodgina lithium hydroxide plant by Hatch is in progress, with findings to date positive and no adverse issues identified.
- **Lithium DSO pullback to protect ore body value, in anticipation of 49% interest sale.** In our view, DSO has fulfilled its promise of early cash flow, and now that the company is entering more advanced stages of sale negotiations, the pull back in DSO subject to existing contracts makes sense. The company exported 3.3Mt DSO for FY18 to May 18 end, and expects 0.3Mt in June 2018 for a total of 3.6Mt in FY18e.
- At this stage, the company will continue to **wind down production and export of DSO until CY18e end.** The window has been left ajar though with the decision to continue DSO production beyond CY18e to be deferred pending the outcome of the divestment process of the Wodgina interest sale and ultimate Wodgina JV participants. We value Wodgina at A\$2.2B (100% interest).
- **Reaffirmed FY18e EBITDA of \$500M:** in spite of FY18e lithium DSO exports guidance lowered to 3.6Mt, and FY19e DSO volumes of 5.5Mt likely lowered, although this has not yet been formally confirmed.

Earnings and Valuation:

- We have reduced lithium DSO volumes in FY18e to FY20e to 3.6Mt, 2.75Mt, and 0Mt (previously 4Mt, 5.5Mt, and 3Mt). We have made a number of updates to assumptions and now **forecast FY18e-FY20e EBITDA of \$530M, \$617M, and \$720M** (previously \$544M, \$714M, \$825M), and **NPAT of \$241, \$290M, and \$342M** (\$251M, \$357M, and \$415M).
- We derive a blended DCF (50%), EV/EBITDA (50%) valuation of **\$20.02/share** (previously \$21.65).

Recommendation:

- We maintain a **Buy recommendation on MIN with a revised price target of \$20.02/share** (previously \$21.65), in line with our valuation.
- We continue to hold the view a **near term buying opportunity for MIN** exists as the stock was in our view over sold on lower DSO shipments in May. We note further updates on the Wodgina sale will be a major positive catalyst for the stock as will be the near term execution on the Wodgina spodumene trains.