



Kidman Resources Ltd (KDR.ASX)

Increase in capex and costs claws back value

Event:

- Review of KDR post refinery PFS and updated mine scoping study.

Investment Highlights:

- KDR's Refinery PFS and updated mine scoping study was characterized by a marked increase in mine capex and operating costs**, which were 14% and 21% higher than our prior estimates. C1 cash costs ex-royalty were US\$4,808/t, 20% above our prior estimate of US\$4,002/t, mostly due to the higher cost of spodumene feed. Contributors to mine capex increases included water treatment plant, more flotation cells, new airport, and higher pre-strip.
- We estimate all-in-sustaining costs of US\$5,400/t for the integrated project.** This includes credit for external surplus spodumene sales, as well as corporate overhead, sustaining capex, freight and marketing in addition to C1 costs. We estimate the project to lie around the middle of the Roskill LiOH cost curve.
- NPV₁₀ of the project was in-line with our estimate because of the higher LiOH prices assumed in the PFS (US\$15.1k/t) vs our prior forecast (US\$11.6k/t Li₂CO₃).**
- We estimate KDR will need to expend a total of \$600M until the refinery is completed (we assume by end FY22e), including project capex, corporate, working capital, and exploration.** We assume funding sources will be a mix of equity, debt (mostly from SQM facilities), cash flow from mine, and outstanding SQM milestone payments.
- KDR is also examining an expansion case of 68ktpa LiOH.** We had assumed a greater expansion case of 100ktpa LiOH, scale, but believe the JV is more discerning in expanding aggressively in light of increasing supply from peers.
- We have pushed back our forecast production forecast for KDR by 12 months for both the mine and the refinery, now expecting first production in FY21e and FY23e respectively.** We have also allowed for a 12 month ramp-up time for both mine and refinery.

Earnings and Valuation:

- We have downgraded our near term forecasts (FY19e to FY23e), mostly due to pushing back production and increased ramp up time.** Longer term post FY23e we upgraded our earnings forecasts on higher LiOH prices (previously we assumed Li₂CO₃ pricing).
- Our risked NPV₁₀ valuation has reduced to \$1.70/share (prior \$2.78/share).** This is due to scaling down the value attributed to the expansion case to 68ktpa (previously 100ktpa); downgrade to short term earnings; and increase in capex and operating costs; partially offset by higher LiOH pricing,

Recommendation:

- We maintain our Buy recommendation and reduce our 12-month price target to \$1.70/share (prior \$2.78), based on our 1.0x P/risked valuation.**
- Catalysts** for the share price include: Integrated refinery and mine PFS; DFS; Granting of expenditure exemptions by Minister; Outstanding milestone payments by SQM; Further offtake agreements; Environmental approvals; FID.

Disclosures

The analyst does not own KDR securities. Foster Stockbroking and associated entities excluding Cranport Pty Ltd) do not own KDR securities. Cranport Pty Ltd does not own KDR securities. Refer details end report.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.70
Previous	\$2.78
Share Price (A\$)	\$ 1.35
ASX Code	KDR
52 week low - high (A\$)	0.825-2.48
Valuation (A\$/share) - risked	\$1.70
Methodology	DCF
Capital structure	
Shares on Issue (M)	400
Market Cap (A\$M)	539
Net Cash/(Debt) (A\$M)	1
EV (A\$M)	538
Share rights (M)	2
Fully diluted EV (\$M)	541
12mth Ave Daily Volume ('000)	3,418

Y/e Jun (A\$M)	2018a	2019e	2020e	2021e
Sales	0.0	0.0	0.0	84.4
Adj EBITDA	-8.9	-12.0	-12.1	29.9
Adj NPAT underlying	-9.0	-12.6	-10.4	9.5
Reported NPAT	-9.7	-12.6	3.8	9.5
Adj EPS diluted \$	-0.02	-0.03	-0.02	0.02
PER x diluted	nm	nm	nm	65.8
EV/EBITDA x	nm	nm	nm	14.4

*Adj = underlying FSB estimate

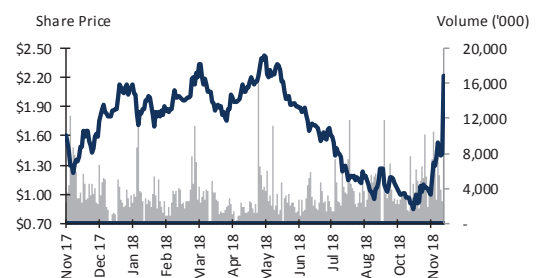
Board

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

Substantial shareholders

EDM Nominees Pty Ltd	8.2%
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Share Price Graph



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