



Time to Revisit Mining Stocks in light of A\$ Tailwind

Our Picks – TER, MIN, PLS

Disclosure

The analyst does not own MIN, PLS or TER securities. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 254,462 PLS shares, 2,065,000 TER shares, and 1,500,000 TER options with exercise price of \$0.60 and expiry on 31 August 2020, and do not own MIN securities.

Cranport Pty Ltd owns 150,000 MIN shares, 300,000 PLS shares, and 3,001,519 TER shares.

Refer to end of report for details.

Mineral Resources Limited		MIN
Recommendation		Buy
Risk		High
Price Target, A\$		Under Review
Share Price, A\$		\$ 14.13
Market Cap, A\$M		2,652

Pilbara Minerals Limited		PLS		
Recommendation		Buy		
Risk		High		
Price Target, A\$		\$ 1.04		
Share Price, A\$		\$ 0.745		
Market Cap, A\$M		1,300		
June end (A\$M)	2018a	2019e	2020e	2021e
NPAT adj.	-19.0	99.9	127.1	160.6
EPS diluted \$ adj.	-0.01	0.06	0.07	0.09
PER x	nm	13.3	10.5	8.3

TerraCom Limited		TER		
Recommendation		Buy		
Risk		High		
Price Target, A\$		\$ 1.01		
Share Price, A\$		\$ 0.62		
Market Cap, A\$M		236		
June end (A\$M)	2018a	2019e	2020e	2021e
NPAT adj.	-26.2	50.5	80.8	39.9
EPS diluted adj. \$	-0.07	0.13	0.21	0.09
PER x diluted	nm	4.6	2.9	6.6

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Talking Point mostly discusses stocks for which Foster Stockbroking does not provide formal research coverage. It combines both a 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:

- We revisit our preferred mining stocks in light of A\$ tailwind.

Analysis and Investment Theme:

- Macro factors impinging on A\$:** A\$ is almost -8% against the US\$ YTD as a number of macro factors are affecting it, including the continuing narrowing of AUD/USD yield spreads as US Fed policy normalisation continues.
- Additionally, concerns over growth in China, falling imports, and negligible inflation are suggestive of follow-on Australian slowdown concerns. With the overlay of lingering uncertainty over US-China trade tensions, even as a temporary tariff ceasefire presents an unlikely long term resolution to escalation, adds to the macro factors weighing on the A\$.
- Local data is not helping A\$ sentiment:** most recent weak domestic GDP growth data was underwhelming (+0.3% QoQ); add to that domestic political uncertainty for CY19e, and concerns over housing and consumption loom large.
- The housing slowdown over the past year, falling asset prices, and historically high household indebtedness against the absence of wage growth is also likely to stay the hand of any further RBA tightening in the near term. With an upcoming Federal election in the first half of CY19e, concerns about potential change in government and uncertainty around potential new policy directions are fuelling the weaker A\$ sentiment.
- We see short term AUD/USD movement likely to the downside which is positive for domestic A\$ cost denominated miners,** given the above.
- Sensitivity to 5c move in AUD/USD:** we estimate for a US5c decline in A\$, the increase in FY20e NPAT for TerraCom (TER) is \$5M and the increase in risked NPV is \$0.10/share (+10%). While for Pilbara Minerals (PLS) a similar move in the A\$ increases FY20e NPAT by \$17M and risked NPV by \$0.14/share (+13%). MIN is currently under review.

Earnings and Valuation:

- We have made no changes to earnings forecasts or valuation for MIN, PLS, or TER.

Recommendation:

- Any further near term weakness in the AUD/USD in our view will benefit domestic commodity producers, all else being equal. We also hold the view rotating into commodities in the late cycle of economic growth.
- We recommend exposure to the following A\$ denominated cost producing companies under coverage (no changes to PTs or ratings):
 - Mineral Resources (MIN), Buy, PT Under Review.**
 - Pilbara Minerals (PLS), Buy, PT \$1.04.**
 - TerraCom (TER), Buy, PT \$1.01.**