



Mineral Resources Ltd (MIN.ASX)

Albemarle Worth The Wait, Wodgina Worth Its Weight

Event:

- Transition to formal coverage; revised assumptions, earnings, and PT.

Investment Highlights:

- Wodgina Lithium Project value vindicated by binding Albemarle agreement:** Purchase price for the 50% interest in Wodgina is US\$1.15B (A\$1.6B) cash, which is based on US\$2.3B (A\$3.2B) enterprise value for the WLP on a 100% basis. This exceeds our valuation of Wodgina by 24% (FSBe A\$2.6B 100% or A\$1.29B 50%). MIN will also provide LOM mining services to the proposed JV.
- Partnering with a leading operator:** ALB will make its proprietary lithium hydroxide plant designs available to the proposed Wodgina JV, as well as manage the marketing and sales of the JV's lithium hydroxide product.
- Mining Services provides annuity style earnings:** via an extensive menu of mining services with the specialty of contract crushing, and including logistics, camp services, plant operations, provides a baseline for group EBITDA.
- Commodities exposure to provide potential for upside, particularly in spodumene and lithium downstream processing:** Mt Marion will shortly upgrade to 400ktpa all 6% spodumene production, and Wodgina is expected to begin spodumene production shortly from FY20Q1e, with the potential to contribute \$240M in FY20e EBITDA assuming the Wodgina sell-down is finalised.
- Added attraction of yield, and strong balance sheet with modest gearing:** subject to final binding agreement with ALB and financial close MIN will be significantly net cash.
- Eases perceived funding pressure:** potential for \$1.6B cash injection for the sale of 50% Wodgina interest, with progress on BOSS on the horizon.
- FY19e guidance partial offset to Wodgina sale update:** group FY19e EBITDA guidance of \$280-320M, with mining services EBITDA to contribute \$240-260M. Capex expected to be \$490M. We infer marginal contribution from the iron ore business, though we remain of the view FY19e will be a consolidating year for MIN and are not overly discouraged by near term compression in FY19e EBITDA.

Earnings and Valuation:

- We have **reduced earnings forecasts for FY19e and FY20e of \$115M and \$228M** (previously \$276M and \$410M), as a result of the Wodgina sell down, revised commodity forecasts, guidance provided at the AGM.
- We have **increased our valuation to \$20.91/share** (prior \$20.15) as a result of the Wodgina sell down, marginally offset by revised commodity forecasts, company guidance, and decreased exposure to Wodgina output.

Recommendation:

- We **reiterate our unchanged Buy recommendation for MIN, with a price target of \$20.91/share** (previously \$20.15), in line with our DCF valuation.
- Key catalysts for the stock include:** Wodgina sale agreement and regulatory approvals; all 6% spodumene from Mt Marion; completion of construction of the spodumene trains at Wodgina, and further progress on hydroxide plant; progress on the Bulk Ore Shuttle System (BOSS); supportive commodity prices.

Disclosure

The analyst does not own MIN securities.

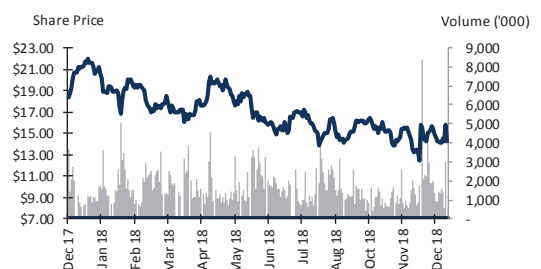
Foster Stockbroking and associated entities

excluding Cranport Pty Ltd) do not own MIN securities.

Cranport Pty Ltd owns 120,000 MIN shares.

Refer to end of report for details.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$20.91			
Previous Target	\$20.15			
Share Price (A\$)	\$15.81			
ASX Code	MIN			
52 week low - high (A\$)	12.45-22.01			
Forecast dividend yield (12 mth fwd)	2.0%			
Valuation (A\$)	\$20.91			
Valuation Methodology	DCF			
Capital structure				
Shares on Issue (M)	188			
Market Cap (A\$M)	2,968			
Net Cash/(Debt) (A\$M) pro forma*	1,164			
EV (A\$M)	1,804			
Options on issue (M)	0			
12mth Av Daily Volume ('000)	1,595			
* includes \$1,600M proceeds from Wodgina sale interest.				
June end (A\$M)	2018a	2019e	2020e	2021e
Sales	1,624.4	1,298.9	1,687.9	1,759.9
EBITDA, underlying	501.5	310.9	475.7	490.5
NPAT, underlying	266.3	115.0	227.7	233.2
Adj EPS diluted, \$	1.42	0.61	1.21	1.24
PER x diluted	11.1	25.8	13.1	12.8
EV/EBITDA x	5.9	9.5	6.2	6.0
DPS, \$	0.65	0.32	0.65	0.67
Dividend yield, %	4.1%	2.0%	4.1%	4.2%
Major Shareholders				
Chris Ellison				11.6%
Perpetual				5.0%
Share Price Graph				



Analyst: Matthew Chen
matthew.chen@fostock.com.au

+61 2 9993 8130