



Kidman Resources Ltd (KDR.ASX)

Integrated PFS - costs rise again

Event:

- Review of KDR post integrated PFS.

Investment Highlights:

- Key feature of KDR's December integrated PFS for the Mt Holland/Kwinana project was another rise in LiOH cash cost, rising to US\$5,105/t (C1 plus royalty) vs the October study of US\$4,762/t and our estimate of US\$4,500/t.
- We estimate the project is positioned somewhere in the middle (lower 3rd/upper 2nd quartile) of the Roskill LiOH cost curve. Our own estimate of AISC – including corporate, sustaining capex, marketing, freight and port - is US\$5,667/t, which still provides an attractive margin assuming a long-term LiOH price of US\$13,114/t.
- The other key change was production of a lower grade spodumene concentrate, 5.5% Li₂O vs 6.2% previously. While lowering mine cost and increasing throughput, this has likely contributed to higher refinery costs due to the plant requirement to process lower grade feedstock. The lower grade spodumene will likely incur a discount to that for 6% Li₂O product. This means less cash flow from the mine from third party sales of spodumene surplus to plant requirements, which means less contribution to fund refinery capex.
- The PFS resulted in a slightly lower NPV and EBITDA than the October study, due to the higher operating cost, and despite the positive impact of assuming a lower A\$ (US\$0.72 vs US\$0.75 previously).
- The integrated PFS was underpinned by maiden JORC Reserves for Earl Grey, comprising 94Mt at 1.5% Li₂O.
- We estimate KDR will need to expend \$631M until the refinery is completed (we assume by end FY22e), including project capex, owners costs, corporate, working capital, and exploration. We assume external funding required - outside of recently received SQM milestone payments and mine cash flow – is \$480M, of which we assume in our forecasts to comprise 2/3 equity and 1/3 debt. Obviously KDR is incentivised to minimize equity dilution and the final mix may differ from our assumptions.
- We estimate KDR attributable net cash (including share of JV) to be \$78M, after receipt of SQM milestone payments following settlement of Mt Holland tenement exemption and forfeiture issues.

Earnings and Valuation:

- We have mostly downgraded our underlying earnings forecasts, mostly due to the increase in costs as a result of the PFS.
- Our risked NPV₁₀ share valuation has reduced to \$1.59 from \$1.70, as a result of the increased costs and reduced earnings filtering through into our DCF.

Recommendation:

- We maintain our Buy recommendation and reduce our 12-month price target to \$1.59/share (prior \$1.70), based on our 1.0x P/risked valuation.
- Catalysts for the share price include release of Integrated DFS; Environmental approvals; Final investment decision; Progress on financing; and commencement of construction.

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	\$1.59
Previous	\$1.70

Share Price (A\$)	\$ 1.225
ASX Code	KDR
52 week low - high (A\$)	0.825-2.48

Valuation (A\$/share) - risked	\$1.59
Methodology	DCF

Capital structure	
Shares on Issue (M)	405
Market Cap (A\$M)	496
Net Cash/(Debt) attributable*	78
EV (A\$M)	418
Performance rights (M)	4
Fully diluted EV (\$M)	422
12mth Ave Daily Volume ('000)	3,215

Y/e Jun (A\$M)	2018a	2019e	2020e	2021e
Sales attrib.	0.0	0.0	0.0	66.0
Adj EBITDA attrib.	-8.9	-12.0	-29.7	-3.9
Adj NPAT attrib.	-9.0	-12.6	-28.8	-29.5
Reported NPAT	-9.7	2.6	-28.8	-29.5
Adj EPS dil. attr. \$	-0.02	-0.03	-0.05	-0.05
PER x diluted	nm	nm	nm	nm
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