

COMPANY Kidman Resources | KDR | \$0.11/share

Date: 19 May 2016

RECOMMENDATION Restricted | Valuation Range \$0.17-\$0.58/sh

EVENT: First gold results from Mt Holland are positive

KEY POINTS

- Kidman Resources (KDR) have announced first results from their initial work at the Mt Holland gold project (Western Australia).
- Resampling of existing drilling has shown for potential of additional gold discoveries at the Mt Holland Project
- Drilling at Blue Vein continues, with depth extensions of the existing mineralisation targeted
- Lithium results held at the laboratory, but are expected soon.

FY 17F METRICS PER 3.76x | EV/EBITDA 2.3x | Yield 0%

LINK TO INITIATION REPORT: [KDR Initiation May 2016](#)

Gold City - KDR has resampled drilling samples that were acquired by the previous holders of Mt Holland. The drilling was a shallow (<60m) nine hole program on the Gold City Prospect, which is located in the southern end of Mt Holland. The original sampling was undertaken on the 4m composite samples, with the 1m splits not completed before the project was put into administration. KDR has now completed the 1m splits with the results including:

- 34m @ 1.45g/t from 20m, Including **8m @ 3.6g/t from 20m**
- 35m @ 0.90g/t from 18m, Including **4m @ 4.07g/t from 24m**
- 15m @ 0.94g/t from 39m, Including **5m @ 1.55g/t from 48m**

The results from the Gold City prospect are positive as they are shallow, have reasonable thickness and good grades. Whilst still early days it does show the potential for Gold City to be an open pit operation. Also what they highlight is the potential for new gold discoveries on the Mt Holland Project.

Blue Vein – The drilling at the Blue Vein deposit is progressing, with the first hole targeting a vertical depth of 400m and then more drilling planned down to ~500m depth. The reason for the large step out is to prove that the Blue Vein mineralisation has significant depth extent and the potential to expand from the current 372koz (includes 208koz @ 6.7g/t).

Lithium Sampling – Previous drilling at the Mt Holland project had intercepted a number of pegmatites in the course of exploration for gold and nickel. These were not sampled at the time, KDR is now in the process of sampling the existing core to determine the lithium potential of the project. In effect the existing core provides KDR with a cheap lithium exploration program. The first of the samples submitted for assay have been delayed at the laboratory and are now expected for release shortly. With a market cap of \$23m KDR is trading well under some of the ASX lithium stories and the lithium potential has not been recognised by the market yet. KDR remains focused on their gold assets and will look to maximise value from the Lithium for shareholders, they have previously released that they have received interest from outside parties for the lithium rights.

INVESTMENT OVERVIEW

- The news flow from KDR continues as they get on with mining at Burbanks Mine and exploration at Mt Holland. The Mt Holland results show the potential for the project to be company maker for KDR. We see scope for the ~1.0Moz resource to be expanded and a mine life beyond the 3-4years defined by the previous operator. There are a number of similarities in KDR's strategic direction with the evolution of established gold stocks like Dacian (DCN - \$294m Mkt Cap) and Doray (DRM - \$315m Mkt Cap). There is still a way to go for KDR but the foundations are starting to build.
- We have valued the assets of KDR in the range of \$0.17 - \$0.58/sh, or ~1.6x to 5.5x the current share price. Based on peer comparison (EV/Resource oz & EV/EBITDA) and DCF NAV. Additional upside to our base case assumptions is possible as KDR de-risk their projects, we have not included any value from the potential lithium

at Mt Holland in our range of values.

Previous Research

- Initiation Report ([KDR Initiation May 2016](#)) for a full summary of the projects and risks
- Update note [KDR Drilling 10 May 2016](#)

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Recommendation Criteria

Investment View

PAC Partners Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
> 20%	20% - 5%	< 5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Risk Rating

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