

COMPANY Kidman Resources Ltd | KDR | \$0.10/share

Date: 23 May 2016

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

EVENT: Lithium Results - strong potential to add value from non-core asset

KEY POINTS

- Kidman Resources (KDRD) has released the first results from their lithium sampling program at the Mount Holland Project (Western Australia).
- Samples were taken from historic drilling undertaken on the Bounty Mine Lease and sampled for lithium. The results are positive with highlights including grades of ~2.0% Li₂O reported over several meters and showing that the pegmatites contain lithium, caesium, tantalum (LCT) zones.
- With the market remaining bullish on lithium these results compare well to some announcements made by peer ASX lithium companies, with larger market capitalisations. The lithium potential alone of the Mt Holland Project should be a positive catalyst for KDR.

FY17F METRICS PER 3.76x | EV/EBITDA 2.3x | Yield 0%

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

A total of 39 samples were taken from 5 historic holes that intersected pegmatites but never sampled, as the original target was gold and nickel mineralisation in a different lithological setting. At the time of the previous exploration there was little economic potential of the pegmatites and therefore some of the drill core is missing.

Highlights of the sampling results include:

2.8m @ 2.38% Li₂O, 211 ppm Cs₂O, and 56 ppm Ta₂O₅ from 0 to 2.8m

0.6m @ 1.33% Li₂O, 337 ppm Cs₂O, and 27 ppm Ta₂O₅ from 238.7 to 239.3m

5m @ 1.79% Li₂O, 160 ppm Cs₂O, and 50 ppm Ta₂O₅ from 194 to 199m

Low cost exploration: Of the 39 samples 32 had lithium values above the detection limit and the peak reported value was 2.35% Li₂O. The results are positive for KDR as they show the potential for lithium on the project and also it has been very cost effective exploration for KDR, with the drilling previously undertaken. The samples were taken based on visual occurrences of spodumene (lithium bearing mineral) therefore there is likely to be a certain level of bias in the sampling.

Follow up program: The sampling program undertaken by KDR was designed to obtain an indication if the pegmatites were in fact LCT style, therefore it has been successful. At this early stage the geology, mineralogy and geochemistry is yet to be fully determined. KDR has indicated that they intend to continue with the low cost, project-wide geological review and database consolidation to locate further mapped or drilled pegmatites.

Exploration Potential High: The exploration potential for lithium remains high with scope for extensive LCT zones to be identified within the Mt Holland project as pegmatite occurrences have been mapped over a long 6km area with the Bounty Mine Lease and more pegmatites have been identified on the greater Mt Holland Project area. The Mt Holland Project sits on the northern extension of the whole Forrestania Greenstone Belt. Western Areas (AS:WSA) has reported similar lithium values from their tenements to the south of KDR within the Forrestania Belt.

INVESTMENT OVERVIEW

- In comparing KDR's results to some of the ~60 ASX lithium stocks, today's results set KDR apart from a number of companies that have pegged greenfield lithium exploration ground based on geochemical anomalies and even those with drilling results. The KDR results are on par, or better, than several stocks that have market capitalisations multiples greater than KDR. Putting KDR's results in context examples of lithium grades at Australian pegmatite hosted resources include: 16Mt at 1.1% Li₂O (Mt Cattlin, Galaxy Resources), 23Mt at 1.4% Li₂O (Mt Marion, Neometals) and 80Mt @ 1.26% Li₂O Pilgangoora, Pilbara Minerals). Whilst a long way from being a resource the KDR results are comparable in tenure at this early stage.
- With a market cap of ~\$23m KDR is trading well under some of the ASX lithium stories and the lithium potential has not been acknowledged by the market. 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.
- 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 lithium 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](#)

Update note: [KDR 19 May 2016 PAC Partners](#)

Should you have any queries, please do not hesitate to contact me on +61 3 8633 9862.

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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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