

Kidman Resources (KDR)

Lithium Story Grows, don't forget about the gold as well

18 July 2016

Andrew Shearer
ashearer@pacpartners.com.au
+61 3 8633 9862

Key Points

- Kidman Resources (KDR) has announced significant lithium results, which point to the potential for KDR to define one of Australia's largest pegmatite hosted lithium resources.
- The results are from historic gold exploration drill core, which had not been assayed for lithium. This is the second lithium mineralised pegmatite that KDR has identified on their Mt Holland (WA) project.
- We continue to see upside from not only the lithium but also the gold for KDR. With ~\$10m in bank and gold production set to resume we see upside potential for KDR. We maintain a Buy recommendation with our risked NAV based price target of \$0.50/sh (unrisked \$0.61/sh)

Lithium potential being recognised

Good thickness and grade: of the holes sampled none penetrated through the pegmatite, therefore the thickness remains unknown, with the minimum thickness currently ~50m. The mineralised intervals include:

- 52m @ 1.53% Li₂O,
- 45m @ 1.81% Li₂O, inc 7m @ 2.23% Li₂O

All of the holes finished in pegmatite, therefore there is scope to increase the minimum thickness.

With peak grades of 3.94% Li₂O and good consistent 40-50m intervals of 1.5%+ Li₂O the results are very positive for KDR.

Multiple prospects: KDR has identified an additional 4 pegmatite targets within the Mt Holland project area. These are outcropping and range in length from 2.2km to 6.3km long

Lithium Valuation: we value the lithium assets based on; the market capitalisation of peer lithium stocks, a recent lithium project transaction and the resource potential at Mt Holland. We have ascribed a value of A\$50m to KDR's lithium assets, with scope to increase this based on advancing the lithium projects.

Summary: The results underline the potential for KDR to define a significant hardrock lithium project that has a number of positive attributes. By virtue that a large amount of drilling has been completed on the pegmatites but not assayed KDR can explore for lithium very cost effectively.

We continue to see upside potential from both the gold and the lithium stories for KDR. We have updated our NAV valuation to include the lithium and modified our assumed gold production profile. We conservatively model the gold production at Mt Holland based on historic feasibility results and see potential to increase this. **We maintain a Buy recommendation with a price target of \$0.50/sh. (Valuation range \$0.50-\$0.61/sh).**

Recommendation

Buy

Previous Recommendation	Initiation
Risk Rating	Very High
Current Share Price	\$0.34
12 Month Price Target	\$0.50
Price Target Methodology	80% NAV
Total Return (Capital + Yield)	223.9%
DCF Valuation	\$0.61
Market capitalisation	\$80m
Cash (PAC estimate)	\$10m

Financial Forecasts & Valuation Metrics

Y/e Jun (\$m)	2015A	2016F	2017F	2018F
Revenue	0	9	41	63
NPAT	-10.6	-2.7	8.0	13.5
EPS (cps)	-8.9	-1.1	2.9	3.0
EPS Growth	-19%	87%	355%	2%
DPS (c)	0.0	0.0	0.0	0.0
EV / EBITDA (x)	na	na	3.3	3.5
PER (x)	-1.8	-13.6	5.3	5.2
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Gearing	-98%	9%	29%	52%
Interest Cover (x)	na	na	20.0	22.9

Source: PAC Partners estimates

Catalysts

Lithium:

- Results of soil sampling to test the possible surface expression of the pegmatite.
- Drilling results from on other identified pegmatites.
- Resampling historic drill holes that were not assayed for lithium
- Maiden lithium resource – by end CY16

Gold:

- Resumption of production from Burbanks. We had modelled limited production (<1,700oz) during the June quarter but this has now slipped into the current quarter. We are expecting to see production resume in the near term
- Ongoing exploration at Mt Holland. There are a number of prospects to increase the existing ~1.0Moz gold resource

Previous Research: Initiation [KDR Initiation May 2016](#), Update [KDR Drilling 10 May 2016](#), Update: [KDR 19 May 2016 PAC Partners](#), Update: [KDR 23 May 2016 PAC Partners](#), Update: [KDR 20 June 2016 PAC Partners](#)

Lithium Valuation

Of the 66 ASX lithium “stocks” that we are tracking only a handful actually has a resource or potential to get a resource in the near term. KDR not only has the potential to rapidly generate a resource but for that resource to be material relative to the other Australian hardrock lithium deposits.

ASX listed Stocks with lithium exposure

	Company	Mkt Cap (A\$m)	12mth	1mth		Company	Mkt Cap (A\$m)	12mth	1mth
1	Mineral Resources. (MIN)	1,855			34	Marindi Metals Ltd (MZN)	14		
2	Orocobre Limited (ORE)	1,016			35	Kingston Resources (KSN)	13		
3	Western Areas Ltd (WSA)	783			36	Caeneus Minerals (CAD)	13		
4	Pilbara Min Ltd (PLS)	712			37	Peninsula Mines Ltd (PSM)	13		
5	Galaxy Resources (GXY)	623			38	Avalon Minerals (AVI)	13		
6	General Mining Corp (GMM)	250			39	Cazaly Resources (CAZ)	12		
7	Neometals Ltd (NMT)	248			40	Walkabout Resources (WKT)	12		
8	Altura Mining Ltd (AJM)	213			41	Venture Minerals (VMS)	11		
9	Atlas Iron Limited (AGO)	108			42	Venus Metals Cor Ltd (VMC)	11		
10	Prospect Res Ltd (PSC)	74			43	Aurora Minerals Ltd (ARM)	11		
11	Global Geoscience (GSC)	68			44	Renascor Res Ltd (RNU)	10		
12	Lithium Australia NL (LIT)	67			45	Core Exploration Ltd (CXO)	10		
13	Kidman Resources Ltd (KDR)	64			46	PepinNini Minerals (PNN)	9		
14	Birimian Limited (BGS)	60			47	Adelaide Resources (ADN)	9		
15	Poseidon Nick Ltd (POS)	49			48	De Grey Mining (DEG)	9		
16	European Metals Hldg (EMH)	43			49	Argonaut Resources (ARE)	9		
17	Crusader Resources (CAS)	38			50	Carnavale Resources (CAV)	8		
18	Pioneer Res Ltd (PIO)	33			51	Archer Exploration (AXE)	8		
19	Metacity Limited (MCT)	32			52	Auroch Minerals Ltd (AOU)	8		
20	Platypus Minerals (PLP)	29			53	Silver City Minerals (SCI)	8		
21	Plymouth Minerals (PLH)	26			54	Cullen Resources (CUL)	8		
22	Dakota Minerals Ltd (DKO)	21			55	Sovereign Gold (SOC)	7		
23	Ardiden Ltd (ADV)	21			56	Paynes Find Gold Ltd (PNE)	6		
24	Hannans Ltd (HNR)	20			57	Enterprise Metals (ENT)	6		
25	Sayona Mining Ltd (SYA)	20			58	Maximus Resources (MXR)	6		
26	Latin Resources Ltd (LRS)	20			59	Traka Resources (TKL)	5		
27	Argosy Minerals Ltd (AGY)	17			60	Capital Mining (CMY)	5		
28	Liontown Resources (LTR)	17			61	Mithril Resources (MTH)	4		
29	Exterra Res Ltd (EXC)	17			62	Quantum Resources (QUR)	4		
30	Zenith Minerals Ltd (ZNC)	17			63	Monax Mining Limited (MOX)	4		
31	Venturex Resources (VXR)	16			64	Lake Resources (LKE)	4		
32	Kairos Minerals Ltd (KAI)	16			65	GB Energy Limited (GBX)	4		
33	Segue Resources (SEG)	14			66	Dart Mining NL (DTM)	3		

Source PAC Partners estimates, Iress

Resource Potential based just on results at Earl Grey

Based on the latest lithium results at Earl we see that there is the potential for a ~7-10Mt resource, with a grade of between 1.5% to 1.7% Li₂O. This is not a JORC resource only our estimate based on the limited results to date.

We do see this as conservative given that the pegmatite remains open in a number of directions. Then there are the other identified pegmatites on the project that also have the potential to be brought into the resource classification.

Existing Infrastructure also a benefit to fast track project

Granted Mining Lease: The results are from underneath an existing gold pit and on a granted mine lease. This helps in the approval process.

Depth: on a first pass look at the results the depth (~125-250m) could be interpreted as an issue but it is worth noting that the drilling was targeting extensions of the overlying gold mineralisation, therefore this is a strong probability that the pegmatites continue up dip towards the surface. Also having the overlying material which is gold mineralised is not such a bad thing anyhow.

[KDR 20 June 2016 PAC Partners](#)

Resource upside due to additional pegmatites still to be tested

By comparison the following table is list of other hardrock lithium deposits, we see that KDR has the potential to define a resource somewhere around the size of Altura’s Pilgangoora and Mt Marion, with scope to move higher on the table. Even on the current share price KDR has a market capitalisation (undiluted) of \$50m, which is well under some of the companies with defined lithium resources.

Pegmatite Lithium Resources				
Project	Resources			Ownership
	Mt	Li ₂ O%	LCE(Mt)	
Greenbushes (WA)	120.6	2.40%	7.16	
Cinovec (Czech Rep.)	532	0.43%	5.66	European Metals (EMH)
Pilgangoora (WA)	128.6	1.22%	3.88	Pilbara Minerals (PLS)
Mt Marion (WA)	60.5	1.36%	2.03	Mineral Resources (43%), Neo Metals (14%), Ganfeng (43%)
Pilgangoora (WA)	35.7	1.05%	0.93	Altua Mining (AJM)
James Bay (Canada)	22.2	1.30%	0.71	Galaxy Resources (GXY)
Mt Cattlin (WA)	16.4	1.10%	0.45	Galaxy Resources (GXY)

Source: PAC Partners estimates and Company Reports

Timing

Given the results released so far we have assumed that KDR will be able to define a significant lithium resource at Mt Holland by the end of CY16.

Comparable Peer transaction

The June 3 transaction between Mineral Resources (MIN) and Neometals (NMT) on the Mt Marion deposit, where MIN increased their ownership by 13.1% for US\$19.65. Valuing the project at the time at ~US\$151m (A\$198m). At that time the resource was 23.2Mt @ 1.39% Li₂O.

\$50m valuation for KDR’s lithium potential

Based on the market capitalisation of what we see as peer lithium stocks the resource potential possible at Mt Holland and also the above recent peer transaction we have ascribed a value of A\$50m to KDR’s lithium assets.

Risks to this valuation centre on defining a resource and also market cooling towards lithium as a commodity.

Key Cross Section

The following diagram shows that the pegmatite remains open and untested up dip, i.e. closer to the surface (RHS). Also the position of the pegmatite in relation to the existing pit and overlying gold drilling.

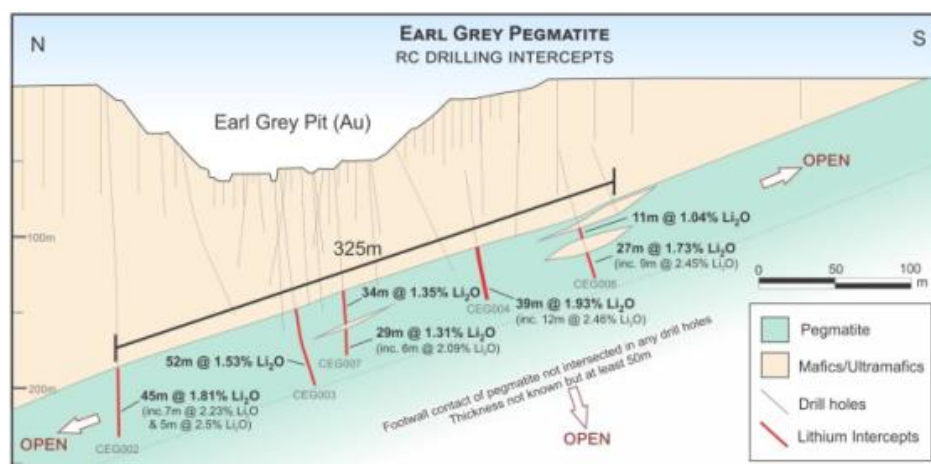


Figure 1: Cross section of the Earl Grey pegmatite with intercepts from resampled RC drill holes. The thickness of the pegmatite is still unknown, however the existing drill holes confirm a minimum true width of 50m.

Changes to Valuation

We have updated our model for KDR and made the following changes

- Modified assumed production of 1,680oz from Burbanks in June quarter and reduced September quarter production from 4725oz to 4200oz
- Increased the debt from \$6m to \$7.2m to recognise the full liability on maturity in mid-2017.
- Increased our assumed gold price from US\$1,200/oz to US\$1,300/oz
- Shifted AUD:USD FX rate to 0.74, from 0.72
- Added in valuation of \$50m for lithium potential
- Raised exploration potential from \$10m to \$20m to reflect the improvement in understanding of the Mt Holland geology by the KDR team and stronger market sentiment towards gold.

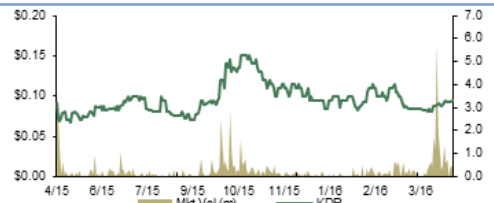
Mt Holland gold valuation based on base case scenario

Our assumed production from Mt Holland is unchanged, which is; 4 years production at an average rate of 49,300oz pa, for total production of 158,350oz. This assumes that approximately half of the current resources (372koz) at the Blue Vein deposit are recovered

NAV Valuation

	Unrisked		Risky	
	Value (A\$m)	A\$/Share	Value (A\$m)	A\$/Share
Burbanks	\$28	\$0.12	\$25.56	\$0.11
Mt Holland	\$53	\$0.22	\$28.90	\$0.12
Lithium	\$50	\$0.21	\$50.00	\$0.21
Corporate	-\$8	-\$0.03	-\$7.64	-\$0.03
Debt	-\$7	-\$0.03	-\$7.20	-\$0.03
Cash	\$10	\$0.04	\$9.50	\$0.04
Exploration	\$20	\$0.08	\$20.00	\$0.08
Total NAV (A\$)	\$146	\$0.61	\$119.12	\$0.50

Source: PAC Partners estimates

COMPANY SUMMARY					FINANCIAL SUMMARY								
Kidman Resources Limited					Year End - Jun								
KDR.AX					KEY METRICS X								
18/07/2016					EPS Growth (%)	87.1%	>100%	41.8%	>100%	-22.1%	7.0%		
Price Information					PER (x)	-29.86	11.08	7.81	3.77	4.84	4.53		
Price (\$/Share)	\$0.34	Target Price (\$/Share)	\$0.50		Dividend Yield (%)	0	0	0	11	8	9		
Mkt Cap (\$m)	\$81				EV/EBITDA (x)	-48.8	6.5	4.9	1.8	1.7	1.1		
Enterprise Value (\$m)	\$81				EV (\$m)	81	93	124	99	74	48		
Share Price & Volume Chart					ROE (%)	-36.7%	66.7%	53.9%	62.7%	35.5%	30.2%		
					ROA (%)	-48.0%	48.3%	32.7%	48.3%	43.9%	59.6%		
Commodity / FX forecasts					ROIC (%)	-19.9%	42.6%	25.0%	58.2%	56.9%	78.7%		
	FY16E	FY17E	FY18E	FY19E	PROFIT & LOSS (AUD \$m)								
Gold Price (US\$)	1,188	1,300	1,300	1,300	Revenue	9	41	63	115	89	91		
AUD:USD	0.73	0.74	0.74	0.74	EBITDA	-2	14	25	54	44	45		
Production					Depreciation & Amortisation	0	2	5	13	12	12		
	FY16E	FY17E	FY18E	FY19E	EBIT	-2.1	12.0	20.2	41.2	31.8	33.5		
Burbanks Prod. (oz)	5,746	23,098	25,198	18,899	Net Interest Expense	-0.6	-0.6	-0.9	-1.1	-0.7	-0.2		
Mt Holland Prod (oz)			10,484	46,252	Income Tax Expense	0.0	-3.4	-5.8	-12.0	-9.4	-10.0		
NPV by parts					NPAT Reported	-2.7	8.0	13.5	28.0	21.8	23.3		
	Un Risked		Risked		NPAT Adjusted	-2.7	8.0	13.5	28.0	21.8	23.3		
	A\$m	Per Share	A\$m	Per Share	PER SHARE DATA (cps)								
Burbanks	\$28.4	\$0.12	\$25.6	\$0.11	Shares on Issue (m)	237	261	311	311	311	311		
Mt Holland	\$52.5	\$0.22	\$28.9	\$0.12	EPS Reported	-1.1	3.1	4.4	9.0	7.0	7.5		
Corporate	-\$7.6	-\$0.03	-\$7.6	-\$0.03	EPS Adjusted	-1.1	3.1	4.4	9.0	7.0	7.5		
Debt	-\$7.2	-\$0.03	-\$7.2	-\$0.03	DPS	0.0	0.0	0.0	3.6	2.8	3.0		
Cash	\$9.5	\$0.04	\$9.5	\$0.04	BALANCE SHEET (AUD \$m)								
Exploration	\$20.0	\$0.08	\$20.0	\$0.08	Cash	5	4	4	21	39	58		
Total NAV (A\$m)	\$145.6	\$0.61	\$119.1	\$0.50	Debtors & Inventory	0	2	4	5	4	4		
Resources					PP&E	11	19	53	43	34	24		
	Tonnes (Mt)	Au grade (g/t)	Au (oz)		Intangibles	0	0	0	0	0	0		
Van Uden	5.4	1.38	238,000		Total Assets	16	26	64	77	83	92		
Blue Vein	4.8	2.39	372,500		Borrowings	6	8	22	15	7	0		
Twinnings Group (Earl Grey, J)	3.6	1.10	128,000		Creditors	0	3	6	8	7	7		
Bushpig	0.7	1.16	28,000		Total Liabilities	7	12	29	23	14	7		
Razorback	0.3	1.13	10,000		Net Assets	10	14	36	54	69	85		
Victory	0.4	1.20	15,000		BALANCE SHEETS RATIOS								
Bounty South	0.1	1.42	3,000		Gearing - Debt/Equity (%)	8.6	28.7	52.3	-11.8	-45.7	-67.6		
Bounty Main - open cut	1.4	1.86	84,000		Interest Cover (x)	-3.5	20.0	22.9	36.5	47.4	179.1		
Bounty North - open cut	0.7	1.40	32,000		NTA per Share (cps)	4.0	5.5	11.5	17.3	22.2	27.3		
Bounty East - open cut	0.5	1.20	18,000		CASH FLOW (AUD \$m)								
Mt Holland Sub Total	17.9	1.78	928,500		EBITDA	0	17	29	58	48	46		
Bounty Main - underground	2.0	3.69	235,000		Interest & Tax	0	-4	-6	-12	-7	-6		
Bounty North - underground	0.1	2.52	11,000		Working Capital Change	0	0	0	0	0	0		
Mt Holland Total	20.0		1,174,500		Operating Cash Flow	0	9	18	43	39	39		
					Maintenance Capex	-4	-7	-5	-4	-2	-2		
					Free Cash Flow	-4	2	13	40	37	37		
					Capex	-7	-4	-34	0	0	0		
					Equity Issues / (Buy Backs)	8	2	14	0	0	0		
					Proceeds from Borrowings	5.4	2.3	11.2	-8.6	-8.6	-6.4		
					Other	-2.0	-4.0	-4.0	-2.5	-2.0	-2.0		
					Net Cash Flow	0	-2	0	18	17	19		

Contact Information

Melbourne (Head Office) Level 10, 330 Collins Street Melbourne VIC 3000 +61 3 8633 9831
Sydney Level 9, 56 Pitt Street, Sydney NSW 2000 +61 2 9233 9600
Perth Level 29, 219 St Georges Tce, Perth WA 6000

CRAIG STRANGER

Managing Director
 3 8633 9832
cstranger@pacpartners.com.au

SEAN KENNEDY

Corporate Finance
 03 8633 9836
skennedy@pacpartners.com.au

ANTHONY STANI

Corporate Finance
 03 8633 8251
astani@pacpartners.com.au

BROOKE PICKEN

Equity Capital Markets
 03 8633 9831
bpicken@pacpartners.com.au

PAUL JENSZ

Director, Senior Industrial Analyst
 03 8633 9864
pjensz@pacpartners.com.au

ANDREW SHEARER

Senior Analyst
 03 8633 9862
ashearer@pacpartners.com.au

LAWRENCE GRECH

Senior Analyst
 0404 052 913
lgrech@pacpartners.com.au

ROGER CHEN

Junior Analyst
 03 8633 9868
rchen@pacpartners.com.au

RYAN GALE

Corporate Sales
 03 8633 9833
rgale@pacpartners.com.au

BRENDAN FOGARTY

Corporate Sales
 03 8633 9866
bfogarty@pacpartners.com.au

TOM FAIRCHILD

Corporate Sales
 +61 03 8633 9867
tfairchild@pacpartners.com.au

EDWIN BULESCO

Corporate Sales – Perth
 0431 567 550
ebulesco@pacpartners.com.au

PHIL CAWOOD

Institutional Sales – Sydney
 02 9994 5552
Pcawood@pacpartners.com.au

IAN LEETE

Corporate Sales – Sydney
 02 9994 5551
ileete@pacpartners.com.au

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

PAC Partners has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

Disclosure of Economic Interests

The views expressed in this research report accurately reflect the personal views of Andrew Shearer about the subject issuer and its securities.

The following person(s) holds an economic interest in the securities covered in this report or other securities issued by the subject issuer which may influence this report:

- the author of this report
- a member of the immediate family of the author of this report

Disclaimer

PAC Partners Pty Ltd. (“**PAC Partners**” or “**PAC**”) is a Corporate Authorised Representative of PAC Asset Management Pty Ltd holder of an Australian Financial Services Licence (AFSL No. 335 374)

The information contained in this report is provided by PAC Partners to Wholesale Investors only. Retail investor and third party recipients should not rely, directly or indirectly, on this report. Users of this research report should not act on any content or recommendation without first seeking professional advice. Whilst the report has been prepared with all reasonable care from sources which we believe are reliable, no responsibility or liability is accepted by PAC Partners, for any errors or omissions or misstatements however caused. Any opinions, forecasts or recommendations reflect our judgement and assumptions at the date of publication or broadcast and may change without notice. This report is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. This publication contains general securities advice. In preparing our Content it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual user. Access of this report does not create a client relationship between PAC Partners and the user. Before making an investment decision on the basis of this advice, you need to consider, with or without the assistance of a securities adviser, whether the advice in this publication is appropriate in light of your particular investment needs, objectives and financial situation. PAC and its associates within the meaning of the Corporations Act may hold securities in the companies referred to in this publication. PAC believes that the advice and information herein is accurate and reliable, but no warranties of accuracy, reliability or completeness are given (except insofar as liability under any statute cannot be excluded). No responsibility for any errors or omissions or any negligence is accepted by PAC or any of its directors, employees or agents. Any content is not for public circulation or reproduction, whether in whole or in part and is not to be disclosed to any person other than the intended user, without the prior written consent of PAC Partners.

Disclosure of Corporate Involvement

PAC Partners has in the previous 12 months carried out work on behalf of the Company described in this report and received fees on commercial terms for its services. PAC Partners in its role as Lead Manager and Underwriter to KDR's recent \$8m Placement & Entitlement Offer was paid an Underwriting/ Capital Raising fee on funds placed/underwritten in the Offer. In addition, PAC Partners is being paid an ongoing monthly corporate advisory retainer.

PAC Partners and/or their associates may own securities of the Company described in this report. PAC Partners does and seeks to do business with companies covered in the research. PAC may receive commissions from dealing in securities. As a result, investors should be aware that PAC Partners may have a conflict of interest that could affect the objectivity of this report.

For more information about PAC Partners please visit www.pacpartners.com.au