

### Kidman Resources (KDR)

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

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#### 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% Li<sub>2</sub>O,
- 45m @ 1.81% Li<sub>2</sub>O, inc 7m @ 2.23% Li<sub>2</sub>O

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

**With peak grades of 3.94% Li<sub>2</sub>O and good consistent 40-50m intervals of 1.5%+ Li<sub>2</sub>O 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% Li<sub>2</sub>O. 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 <sub>2</sub> 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% Li<sub>2</sub>O.

**\$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.

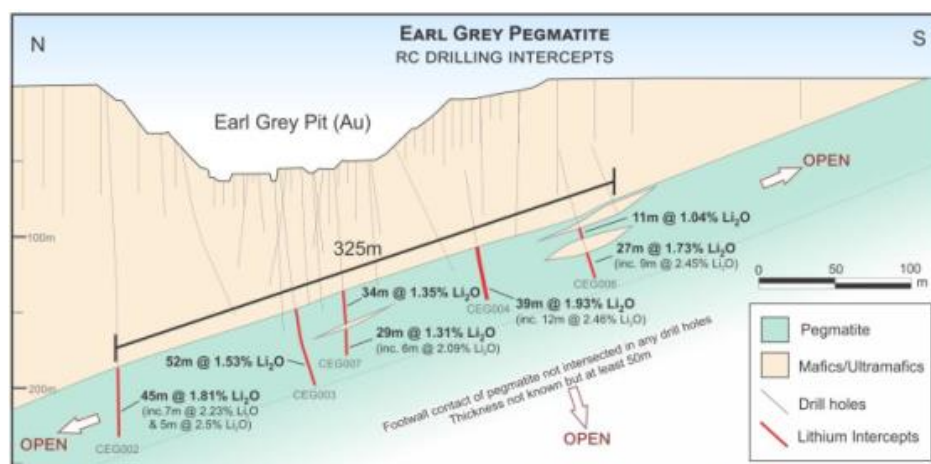


Figure 1: Cross section of the Earl Grey pegmatite with intercepts from resampled RC drill holes. The thickness of the pegmatite is still unknown, however the existing drill holes confirm a minimum true width of 50m.

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

Source: PAC Partners estimates

## COMPANY SUMMARY

## Kidman Resources Limited

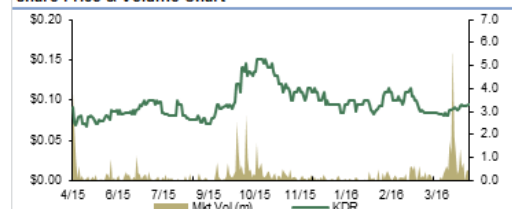
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18/07/2016

## Price Information

Price (\$/Share)	\$0.34	Target Price (\$/Share)	\$0.50
Mkt Cap (\$m)	\$81		
Enterprise Value (\$m)	\$81		

## Share Price &amp; Volume Chart



## Commodity / FX forecasts

	FY16E	FY17E	FY18E	FY19E
Gold Price (US\$)	1,188	1,300	1,300	1,300
AUD:USD	0.73	0.74	0.74	0.74

## Production

	FY16E	FY17E	FY18E	FY19E
Burbanks Prod. (oz)	5,746	23,098	25,198	18,899
Mt Holland Prod (oz)			10,484	46,252

## NPV by parts

	Un Risked		Risked	
	A\$m	Per Share	A\$m	Per Share
Burbanks	\$28.4	\$0.12	\$25.6	\$0.11
Mt Holland	\$52.5	\$0.22	\$28.9	\$0.12
Corporate	-\$7.6	-\$0.03	-\$7.6	-\$0.03
Debt	-\$7.2	-\$0.03	-\$7.2	-\$0.03
Cash	\$9.5	\$0.04	\$9.5	\$0.04
Exploration	\$20.0	\$0.08	\$20.0	\$0.08
<b>Total NAV (A\$m)</b>	<b>\$145.6</b>	<b>\$0.61</b>	<b>\$119.1</b>	<b>\$0.50</b>

## FINANCIAL SUMMARY

Year End - Jun	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E
<b>KEY METRICS</b>						
EPS Growth (%)	87.1%	>100%	41.8%	>100%	-22.1%	7.0%
PER (x)	-29.86	11.08	7.81	3.77	4.84	4.53
Dividend Yield (%)	0	0	0	11	8	9
EV/EBITDA (x)	-48.8	6.5	4.9	1.8	1.7	1.1
EV (\$m)	81	93	124	99	74	48
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%
ROIC (%)	-19.9%	42.6%	25.0%	58.2%	56.9%	78.7%

## PROFIT &amp; LOSS (AUD \$m)

Revenue	9	41	63	115	89	91
EBITDA	-2	14	25	54	44	45
Depreciation & Amortisation	0	2	5	13	12	12
EBIT	-2.1	12.0	20.2	41.2	31.8	33.5
Net Interest Expense	-0.6	-0.6	-0.9	-1.1	-0.7	-0.2
Income Tax Expense	0.0	-3.4	-5.8	-12.0	-9.4	-10.0
NPAT Reported	-2.7	8.0	13.5	28.0	21.8	23.3
NPAT Adjusted	-2.7	8.0	13.5	28.0	21.8	23.3

## PER SHARE DATA (cps)

Shares on Issue (m)	237	261	311	311	311	311
EPS Reported	-1.1	3.1	4.4	9.0	7.0	7.5
EPS Adjusted	-1.1	3.1	4.4	9.0	7.0	7.5
DPS	0.0	0.0	0.0	3.6	2.8	3.0

## BALANCE SHEET (AUD \$m)

Cash	5	4	4	21	39	58
Debtors & Inventory	0	2	4	5	4	4
PP&E	11	19	53	43	34	24
Intangibles	0	0	0	0	0	0
Total Assets	16	26	64	77	83	92
Borrowings	6	8	22	15	7	0
Creditors	0	3	6	8	7	7
Total Liabilities	7	12	29	23	14	7
Net Assets	10	14	36	54	69	85

## BALANCE SHEETS RATIOS

Gearing - Debt/Equity (%)	8.6	28.7	52.3	-11.8	-45.7	-67.6
Interest Cover (x)	-3.5	20.0	22.9	36.5	47.4	179.1
NTA per Share (cps)	4.0	5.5	11.5	17.3	22.2	27.3

## CASH FLOW (AUD \$m)

EBITDA	0	17	29	58	48	46
Interest & Tax	0	-4	-6	-12	-7	-6
Working Capital Change	0	0	0	0	0	0
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
<b>Net Cash Flow</b>	<b>0</b>	<b>-2</b>	<b>0</b>	<b>18</b>	<b>17</b>	<b>19</b>

## Resources

	Tonnes (Mt)	Au grade (g/t)	Au (oz)
Van Uden	5.4	1.38	238,000
Blue Vein	4.8	2.39	372,500
Twinnings Group (Earl Grey, J)	3.6	1.10	128,000
Bushpig	0.7	1.16	28,000
Razorback	0.3	1.13	10,000
Victory	0.4	1.20	15,000
Bounty South	0.1	1.42	3,000
Bounty Main - open cut	1.4	1.86	84,000
Bounty North - open cut	0.7	1.40	32,000
Bounty East - open cut	0.5	1.20	18,000
Mt Holland Sub Total	<b>17.9</b>	<b>1.78</b>	<b>928,500</b>
Bounty Main - underground	2.0	3.69	235,000
Bounty North - underground	0.1	2.52	11,000
<b>Mt Holland Total</b>	<b>20.0</b>		<b>1,174,500</b>

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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

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.

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