

16 Nov 2016

KIDMAN RESOURCES LTD (KDR)

Newsflow ahead: met work and maiden resource

Kidman has announced that metallurgy results for its Mt Holland lithium deposit are due imminently. We assume the results will be good; however, we are interested given the deposit appears to contain both spodumene and petalite. We don't expect the petalite will present any difficulties, but it will be good to see that the metallurgy confirms this assumption.

Subsequently, we expect the Company to release a maiden resource. We expect the resource to be large and at good grade. We see potential for a very large deposit (80-110Mt at good grades of 1.3-1.6% Li₂O) with possibility that the project becomes larger, particularly now that it appears to extend to the north.

Poseiden processing agreement

KDR has acquired an option (expires August 2017) to use and operate the Lake Johnston plant (owned by POS.asx) for 3+2 years. Upon exercise, KDR would be required to pay quarterly instalments of A\$1.5m (total of \$6m pa or a processing fee equivalent to \$10 per dry tonne, whichever is higher). The plant is ~100km by road from the Mt Holland deposit. Separately, POS says that if the nickel market improves, its strategy is to initially restart Silver Swan as a priority, while Maggie Hays and Emily Ann (at Lake Johnston) will take ~18 months of mine development, which POS could start ahead of the expiry of the lease to KDR. We assume KDR will have make good provisions for the mill to return it to a nickel processing plant. We also assume that the capex required for KDR to convert the plant into a spodumene plant will be more than \$8m (GMM/GXY budgeted ~\$15m to restart Mt Cattlin and subsequently have had to spend more).

Although it is a nice option to have, we believe the real value of Mt Holland is building a standalone operation which is designed for the orebody (ie product specification and a very long mine life). Entering production quickly is nice to happen, but, as PLS recently has shown, there appears to be potential for a DSO market in the next few years. We believe pursuing DSO product sales would be lower risk than re-commissioning an old plant (and then coincidentally building and commissioning a new plant). Consequently, our speculative valuation assumes a standalone operation, which remains our base case.

Marindi (MZN) action...we assume no impact

KDR has said that "it does not have, nor has it ever had, a binding agreement with Marindi to sell the lithium rights at Mt Holland, and will continue to work with its legal counsel on this matter". The Company also states "that prior to the last few days, Marindi had not previously alleged any agreement, and in light of developments since April 2016, the Company views Marindi's actions as being opportunistic." We assume Marindi's actions will have no material effect on our KDR valuation, and hopefully can be resolved before January.

Retain Speculative Buy

Our preliminary and highly speculative unfunded pre-tax valuation is \$1bn, of which only \$60m is for the gold assets. Our valuation is based on a 2Mtpa operation, but it is possible that the operation could justify a larger mill, if the resource justifies it, and the Company is able to secure offtake.

Share Price	\$0.460
Prelim. Valuation	\$1.28
Price Target (12 month)	\$1.07

Brief Business Description:

Excellent, but early stage, spodumene project in WA plus a good advanced gold exploration portfolio, also in WA.

Hartleys Brief Investment Conclusion

Appears to have a large undeveloped and good grade spodumene project. Under valued if the project can be developed.

Chairman & MD

Peter Lester (Chairman)

Martin Donohue (MD)

Major Shareholders

Capri 10.3%

Acorn 5.9%

Company Address

Level 4, 12-20 Flinders Lane
Melbourne VIC 3000

Issued Capital 315.9m
- fully diluted 365.8m

Market Cap A\$145.3m
- fully diluted A\$168.3m

Cash (30 Sep 16a) A\$17.3m

Debt (30 Sep 16a) A\$6.0m

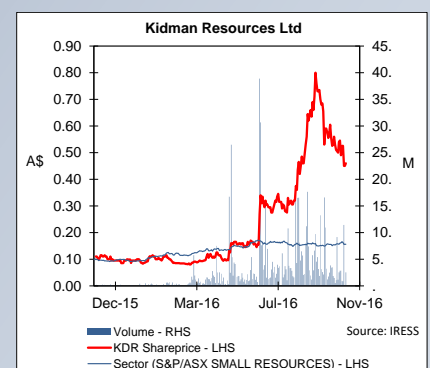
EV A\$134.0m

EV/Resource Spod.

EV/Reserve Spod.

	Prelim. (A\$m)	FY19e
Prod (spod Mt)		nm
Op Cash Flw		nm
Norm NPAT		loss
CF/Share (cps)		nm
EPS (cps)		nm
P/E		nm

	Mt	grade	Moz
Resources (Li ₂ O)	none		
Reserve (Li ₂ O)	none		
	Mt	grade	Moz
Resources (Au)	20.0	1.8	1.2
Reserve (Au)	none		



Trent Barnett

Head of Research

Ph: +61 8 9268 3052

E: trent_barnett@hartleys.com.au

Hartleys has assisted in the completion of capital raisings in the past 12 months for Kidman Resources Limited (Kidman), for which it has earned fees. Hartleys has provided corporate advice within the past 12 months, and continues to provide corporate advice to Kidman for which it has earned and continues to earn fees. Hartleys has a beneficial interest in 4 million unlisted options in Kidman. See back page for details.

SUMMARY MODEL

Kidman Resources Ltd KDR				Share Price \$0.460	Nov-16 Speculative Buy				
Key Market Information					Directors				
Share Price				\$0.460	Company Details				
Market Capitalisation				\$145.3m	Peter Lester (Chairman)	Level 4, 12-20 Flinders Lane			
Market Capitalisation - full dil.				\$168.3m	Martin Donohue (MD)	Melbourne VIC 3000			
Net Cash (Debt)				\$11.3m	Brad Evans (non-exec)	ph: +61 3 9671 3801			
Listed Investments (est)				\$0.0m		www.kidmanresources.com.au			
Issued Capital				315.90m	Top Shareholders				
Options				49.9m		m shs	%		
Issued Capital (fully diluted all options)				365.8m	Capri	32.5	10.3%		
EV - incl. listed invest				\$134.0m	Acom	18.5	5.9%		
EV - full diluted, option cash				\$149.9m	Investment Summary				
Price Target				\$1.07	Very large and significant but early stage development of hardrock lithium (spodumene) project in WA.				
Projects					Newsflow				
Projects	Interest	Location	Commodity			Project			
Mt Holland - lithium	100%	WA	Li		Nov/Dec	JORC Resource - Lithium	Mt Holland - Li		
Mt Holland - Gold	100%	WA	Au		Q1 CY17	Scoping Study - Lithium	Mt Holland - Li		
					early CY17	DFS - Gold	Mt Holland - Gold		
					CY17	DFS - Lithium	Mt Holland - Li		
					late CY17	commissioning Mt Holland gold?	Mt Holland - Gold		
					CY18	first spodumene sales?	Mt Holland - Li		
JORC Resources					Unpaid Capital				
JORC Resources	Mt	Grade	Metal (oz)		No (m)	\$ (m)	Ave Pr	% Ord	
Mt Holland - lithium	none								
Mt Holland - Gold	20.0	1.8	1.2						
P&L					Options				
P&L	FY2017F	FY2018F	FY2019F						
Net Revenue	na	na	na		30-Jun-17	0	0.00	nm	0.0%
Total Costs	na	na	na		30-Jun-18	0	0.00	nm	0.0%
EBITDA	na	na	na		30-Jun-19	47	7.12	0.150	13.1%
Deprec/Amort	na	na	na		30-Jun-20	0	0.00	nm	0.0%
EBIT	na	na	na		30-Jun-21	0	0.00	nm	0.0%
Net Interest	na	na	na		30-Jun-22	2	0.00	0.000	0.8%
Pre-Tax Profit	na	na	na		Total	49.90	7.12	0.143	13.7%
Tax Expense	na	na	na		Comments				
NPAT	na	na	na						
Abnormal Items	na	na	na						
Reported Profit	na	na	na						
Analyst: Trent Barnett				Last Updated: 16/11/2016					
Phone: +61 8 9268 3052									
Sources: IRESS, Company Information, Hartleys Research									

Fig. 1: Key Assumptions and Risks for valuation

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
An economic hardrock lithium deposit can be defined.	Moderate	Extreme	This appears reasonable based on drilling to date, but still speculative
Selling prices remain strong enough for spodumene mines to be viable	High	Extreme	We assume selling prices and demand remain strong enough for new spodumene mines to be developed
The Poseidon agreement is not used and the Company builds a new greenfields operation	Moderate	Upside	We assume KDR will develop Mt Holland as a standalone operation. If capex can be saved using neighbouring infrastructure this could improve economics
Company can obtain capital	High	Extreme	We assume KDR can continue to raise capital for development and exploration
Meaningful value for the gold assets	Moderate	High	We speculatively assign \$55m of value for the gold assets
Exploration value	Moderate	Meaningful	We assume speculative mining inventory assumptions and additionally some extra some exploration value.

Conclusion

We have used speculative assumptions to derive a valuation. Hence, we view KDR as high risk.

Source: Hartleys

PRICE TARGET

We have a price target of \$1.07 (from \$1.31).

Price Target Methodology	Weighting	Spot	12 mth out
Speculative NPV base case, assuming significant equity dilution	45%	\$1.28	\$1.49
Speculative NPV at spot commodity and fx prices	20%	\$1.64	\$1.91
Net cash	35%	\$0.05	\$0.05
Risk weighted composite		\$0.92	
12 Months Price Target		\$1.07	
Shareprice - Last		\$0.460	
12 mth total return (% to 12mth target + dividend)		133%	

Source: Hartleys Estimate

RISKS

Exploration success in defining an economic deposit is still the largest risk for KDR.

Adjacent to this risk, is the ability for the Company to sign offtakes for the product to provide certainty for financiers. Additionally, the prices for spodumene are a risk. Eventually, other risks are similar to most developers: the outcomes of more detailed studies, metallurgy, management key-man risk, obtaining finance, relevant government approvals, political risk, commodity prices, commissioning success and the asset performance versus nameplate design.

Our valuation is very speculative given it is pre-resource and pre any studies.

HARTLEYS CORPORATE DIRECTORY

Research

Trent Barnett	Head of Research	+61 8 9268 3052
Mike Millikan	Resources Analyst	+61 8 9268 2805
John Macdonald	Resources Analyst	+61 8 9268 3020
Michael Scantlebury	Junior Analyst	+61 8 9268 3045
Janine Bell	Research Assistant	+61 8 9268 2831

Corporate Finance

Dale Bryan	Director & Head of Corp Fin.	+61 8 9268 2829
Richard Simpson	Director	+61 8 9268 2824
Paul Fryer	Director	+61 8 9268 2819
Ben Wale	Associate Director	+61 8 9268 3055
Ben Crossing	Associate Director	+61 8 9268 3047
Stephen Kite	Associate Director	+61 8 9268 3050
Scott Weir	Associate Director	+61 8 9268 2821
Rhys Simpson	Manager	+61 8 9268 2851

Registered Office

Level 6, 141 St Georges Tce Postal Address:

Perth WA 6000	GPO Box 2777
Australia	Perth WA 6001
PH: +61 8 9268 2888	FX: +61 8 9268 2800
www.hartleys.com.au	info@hartleys.com.au

Note: personal email addresses of company employees are structured in the following

manner: first_name_lastname@hartleys.com.au

Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

Institutional Sales

Carrick Ryan	+61 8 9268 2864
Justin Stewart	+61 8 9268 3062
Simon van den Berg	+61 8 9268 2867
Chris Chong	+61 8 9268 2817
Digby Gilmour	+61 8 9268 2814
Cooper Rogers	+61 8 9268 3053

Wealth Management

Nicola Bond	+61 8 9268 2840
Bradley Booth	+61 8 9268 2873
Adrian Brant	+61 8 9268 3065
Nathan Bray	+61 8 9268 2874
Sven Burrell	+61 8 9268 2847
Simon Casey	+61 8 9268 2875
Tony Chien	+61 8 9268 2850
Tim Cottee	+61 8 9268 3064
David Cross	+61 8 9268 2860
Nicholas Draper	+61 8 9268 2883
John Featherby	+61 8 9268 2811
Ben Fleay	+61 8 9268 2844
James Gatti	+61 8 9268 3025
John Goodlad	+61 8 9268 2890
Andrew Gribble	+61 8 9268 2842
David Hainsworth	+61 8 9268 3040
Neil Inglis	+61 8 9268 2894
Murray Jacob	+61 8 9268 2892
Gavin Lehmann	+61 8 9268 2895
Shane Lehmann	+61 8 9268 2897
Steven Loxley	+61 8 9268 2857
Andrew Macnaughtan	+61 8 9268 2898
Scott Metcalf	+61 8 9268 2807
David Michael	+61 8 9268 2835
Jamie Moullin	+61 8 9268 2856
Chris Munro	+61 8 9268 2858
Michael Munro	+61 8 9268 2820
Ian Parker	+61 8 9268 2810
Charlie Ransom	+61 8 9268 2868
Mark Sandford	+61 8 9268 3066
David Smyth	+61 8 9268 2839
Greg Soudure	+61 8 9268 2834
Sonya Soudure	+61 8 9268 2865
Dirk Vanderstruyf	+61 8 9268 2855
Samuel Williams	+61 8 9268 3041
Jayne Walsh	+61 8 9268 2828

Disclaimer/Disclosure

The author of this publication, Hartleys Limited ABN 33 104 195 057 ("Hartleys"), its Directors and their Associates from time to time may hold shares in the security/securities mentioned in this Research document and therefore may benefit from any increase in the price of those securities. Hartleys and its Advisers may earn brokerage, fees, commissions, other benefits or advantages as a result of a transaction arising from any advice mentioned in publications to clients.

Hartleys has assisted in the completion of capital raisings in the past 12 months for Kidman Resources Limited (Kidman), for which it has earned fees. Hartleys has provided corporate advice within the past 12 months, and continues to provide corporate advice to Kidman for which it has earned and continues to earn fees. Hartleys has a beneficial interest in 4 million unlisted options in Kidman.

Any financial product advice contained in this document is unsolicited general information only. Do not act on this advice without first consulting your investment adviser to determine whether the advice is appropriate for your investment objectives, financial situation and particular needs. Hartleys believes that any information or advice (including any financial product advice) contained in this document is accurate when issued. Hartleys however, does not warrant its accuracy or reliability. Hartleys, its officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law.