

4 Oct 2017

KIDMAN RESOURCES LTD (KDR)

Scoping study very robust, KDR is fully funded

Kidman Res. Ltd (KDR) has released the scoping study for its Mt Holland (50%) spodumene project. The study is for a 2Mtpa operation (as expected) for better than expected capex of A\$148m (we assumed A\$190m). The flowsheet includes 3-stage crushing, DMS (with fines regrind) and flotation. Recoveries are assumed to be 60% (petalite will be stockpiled and processed at end of mine life) for production of ~288ktpa spodumene concentrate (~40ktpa LCE) at cash costs ~US\$205/t. Mine life is assumed to be 25 years, but this is only on the Stage 1 pit. It is important to note that this is a KDR study, with limited technical input from SQM. We expect the DFS could show meaningful improvement given SQM's expertise. We note a recent presentation suggested recoveries of 80-86% (see Fig. 1).

Construction is expected to begin in August 2018 with first production by August 2019. We assume the refinery is constructed in CY20.

KDR well financed

As a reminder, KDR recently sold 50% of Mt Holland to SQM.NYSE. KDR will receive US\$30m cash from SQM, and the JV will be capitalised with US\$80m by SQM. KDR also has a US\$21.5m convertible note, which is more simply pre-payment by SQM to capitalise the JV. Once the JV begins, the loan will effectively be cancelled and SQM's remaining obligation to earn its 50% of the JV will be ~US\$60m-80m depending on drawdown of convert note. Based on the capex estimate announced today (A\$148m), it appears the construction of Mt Holland is fully financed (US\$60m in JV / US\$20m convert. note, US\$30m KDR cash spend matched by US\$30m SQM.NYSE spend is total of US\$140m facilities).

Refinery has significant potential value

Also, remember that the recent SQM deal gives KDR an option to invest in a lithium refinery. As an indication of potential value, Tianqi has budgeted \$400m to build a 24ktpa lithium hydroxide refinery in Kwinana (in construction now). We estimate that using spodumene at market prices, a 40ktpa refinery could generate US\$130m pa at LC prices ~US\$11k/t, suggesting ~A\$250m NPV for KDR's share (~19% IRR post tax). At spot prices (both spodumene and LC prices), KDR's share could have NPV ~A\$1.0b (~45% IRR post tax).

Financing the refinery is a key risk for KDR. The spodumene mine should be generating significant cash flow, and hence perhaps debt financing (using the equity in the mine plus the interest in the refinery) is possible. We assume minimal further dilution in our valuation, which means our spot valuation (including incorporating un-risked refinery) is very substantial.

Retain Speculative Buy

We have increased our valuation considerably by incorporating the refinery into our model. Our new base case valuation is \$1.82 (includes 52cps for the refinery). Our spot price valuation is \$4.87 (~\$2.40/shr for the refinery). Clearly commodity price assumptions are very important. Using US\$400/t for spodumene and US\$8k/t for LC, our valuation reduces to 72cps (and the refinery has an IRR of 12%). We maintain our Speculative Buy recommendation on KDR, with our price target of \$1.71 (implying a market cap of ~\$675m).

Share Price	\$0.895
Prelim. Valuation	\$1.82
Price Target (12 month)	\$1.71

Brief Business Description:

Advanced spodumene project in WA in JV with SQM.nyse and option to invest in WA lithium refinery.

Hartleys Brief Investment Conclusion

Quality large and good-grade hard rock lithium project. Refinery has potential to add considerable value at current prices.

Chairman & MD

Peter Lester (Chairman)
Martin Donohue (MD)

Major Shareholders

EDM 9.3%
Western Areas (WSA.asx) 4.9%

Company Address

Level 7, 24-28 Collins Street
Melbourne VIC 3000

Issued Capital
- fully diluted 348.1m
395.6m

Market Cap
- fully diluted A\$311.6m
A\$354.1m

Cash (est) * A\$43.3m

Debt (est) * A\$6.0m

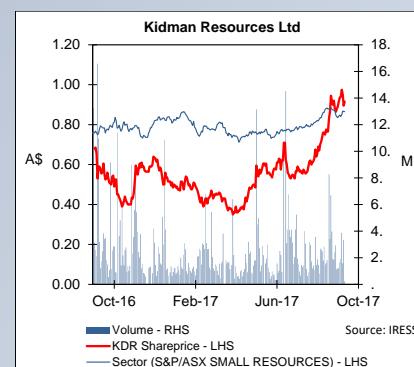
EV A\$274.3m

EV/Resource Spod. A\$149.1/t

EV/Reserve Spod. n/a

	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	Mt Li2O
Resources (Li2O)	128.0	1.4%	1.8
Reserve (Li2O)	none		
	Mt	Grade	Moz Au
Resources (Au)	20.0	1.8	1.2
Reserve (Au)	none		



Trent Barnett

Head of Research

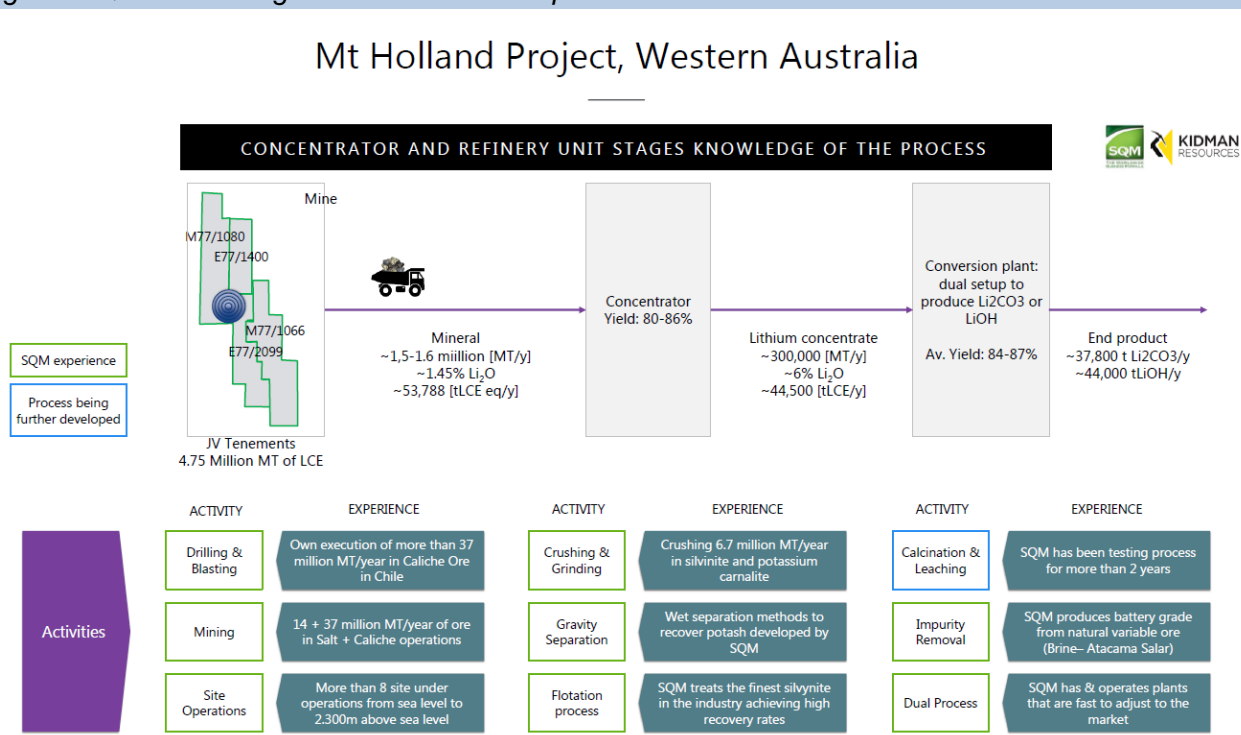
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Hartleys has assisted in the completion of capital raisings in the past 12 months for Kidman Resources Limited ("Kidman"), for which it has earned fees. Hartleys has provided corporate advice within the past 12 months, and continues to provide corporate advice to Kidman for which it has earned and continues to earn fees. Hartleys has a beneficial interest in 1 million Kidman shares and 3 million unlisted options in Kidman. See back page for details.

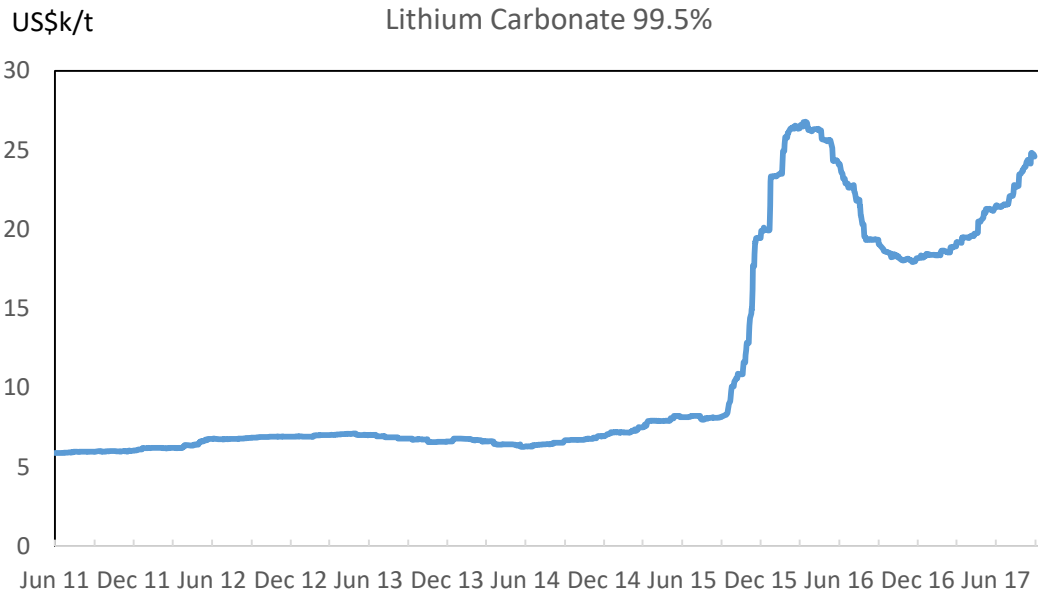
Kidman Resources Ltd KDR		Share Price \$0.895		Oct-17 Speculative Buy	
Key Market Information				Directors	
Share Price		\$0.895		Company Details	
Market Capitalisation		\$311.6m		Level 7, 24-28 Collins Street	
Market Capitalisation - full dil.		\$354.1m		Melbourne VIC 3000	
Net Cash (Debt)		\$37.3m		ph: +61 3 9671 3801	
Listed Investments (est)		\$0.0m		www.kidmanresources.com.au	
Issued Capital		348.14m			
Options		47.5m			
Issued Capital (fully diluted all options)		395.6m			
EV - incl. listed invest		\$274.3m			
EV - full diluted, option cash		\$309.6m			
Price Target		\$1.71			
Projects				Top Shareholders	
	Interest	Location	Commodity		m shs
Mt Holland - lithium	100%	WA	Li	EDM	32.5
Mt Holland - Gold	100%	WA	Au	Western Areas (WSA.asx)	17.2
					%
					9.3%
					4.9%
JORC Resources				Investment Summary	
	Mt	Grade	Li2O (Mt)	Very large development of hardrock lithium (spodumene) project in WA. Project quality and scale has attracted a major partner (ie SQM). Refinery has potential for significant value.	
Mt Holland - lithium	128.0	1.44%	1.84		
- M&I	78.5	1.44%	1.13		
- Inferred	49.5	1.43%	0.71		
	Mt	Grade g/t	Moz		
Mt Holland - Gold	20.0	1.8	1.2		
			LC		
P&L				Newsflow	
	FY2017F	FY2018F	FY2019F		Project
Net Revenue	na	na	na	Mar-18	JV metallurgy update
Total Costs	na	na	na	Jun-18	JV DFS update
EBITDA	na	na	na	Sep-18	Refinery study
Deprec/Amort	na	na	na	Aug-18	Construction of standalone facility?
EBIT	na	na	na	Aug-19	First standalone concentrate sales?
Net Interest	na	na	na	Aug-19	Refinery construction
Pre-Tax Profit	na	na	na		
Tax Expense	na	na	na		
NPAT	na	na	na		
Abnormal Items	na	na	na		
Reported Profit	na	na	na		
				Unpaid Capital	
				No (m)	\$ (m)
					Ave Pr
					% Ord
				Options	
				30-Jun-18	0
				30-Jun-19	47
				30-Jun-20	0
				30-Jun-21	0
				30-Jun-22	0
				Total	47.45
					7.12
					0.150
					12.0%
					0.0%
					0.0%
					0.0%
					0.0%
					0.0%
					12.0%
				Comments	
Analyst: Trent Barnett				Last Updated: 04/10/2017	
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Sources: IRESS, Company Information, Hartleys Research					

Fig. 1: SQM assuming better recoveries possible?



Source: SQM http://s1.q4cdn.com/793210788/files/doc_news/2017/09/SQM-Investor-Day-2017_FINAL_Sept6_website.pdf

Fig. 2: China Lithium Carbonate Prices



Source: Various

Fig. 3: Key Assumptions and Risks for valuation

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
SQM deal completes	Mod-Low	High	Formal documentation has been signed and completion due shortly.
30 year mine life @ 2Mtpa throughput	Moderate	High	This appears reasonable based on the resource to date, and very conservative if we include the exploration target. The scoping study assumes 25yrs
40ktpa refinery	High	Extreme	We assume KDR exercises the option to invest in the downstream refinery
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

Conclusion

The largest risks are spodumene selling prices. Our assumptions around the refinery are speculative and important to our valuation. Hence, we rate KDR as a speculative investment

Source: Hartleys

PRICE TARGET

We have an updated price target of \$1.71/s (from \$0.92/s).

Fig. 4: KDR Price Target

Price Target Methodology	Weighting	Spot	12 mth out
NPV base case, speculative assumptions refinery with IRR 19%	50%	\$1.82	\$1.93
NPV spot prices, speculative assumptions refinery with IRR 45%	10%	\$4.87	\$5.29
NPV spodume US\$400/t, speculative assumptions refinery with IRR 12%	25%	\$0.72	\$0.77
Net cash	15%	\$0.12	\$0.12
Risk weighted composite		\$1.60	
12 Months Price Target		\$1.71	
Shareprice - Last		\$0.895	
12 mth total return (% to 12mth target + dividend)		91%	

Source: Hartleys Estimate

RISKS

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.

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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.

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