



## Kidman Resources Ltd (KDR.ASX)

### Blue chip offtake

#### Event:

- **Offtake announcement.**

#### Investment Highlights:

- **KDR announced its first binding offtake agreement for its Mt Holland Lithium project, with Tesla Inc, the US pure EV carmaker.** The agreement is for the supply to Tesla by KDR of less than 25% share of its lithium hydroxide (LiOH) that will be sourced from the downstream refinery to be built in Kwinana. The refinery will be operated by Western Australia Lithium, the JV between KDR and SQM.
- **Price locked in.** The agreement is for a three-year fixed price take-or-pay, with two three-year options. We understand that the price agreed has been already locked in, and not subject to future movements in any lithium price market benchmarks. The fixed price should protect both KDR and Tesla from significant falls or rises in lithium prices.
- **Supply of approximately 5.5ktpa LiOH.** Assuming the refinery will produce approximately 37 ktpa of LCE, or 44ktpa LiOH (based on 2Mtpa mine rate) and KDR to have 50% interest, we estimate KDR will supply Tesla 5.5ktpa of LiOH, or 25% of its 22ktpa share of refinery output.
- **No accompanying funding.** While the brand name of Tesla certainly brings in a blue chip offtaker that can underpin future debt financing, we were surprised at the absence of either accompanying equity or debt funding, unlike that achieved by some of KDR's peers. However we expect that the offtake agreement should assist KDR in supporting any future debt/equity financing of the Kwinana refinery.
- **Further offtake agreements in pipeline.** KDR also stated that it is in discussions with other parties for most of the balance of its refinery offtake, which have materially exceeded its share of production. We believe that these discussions will not necessarily result in similar agreements to that agreed with Tesla, and could potentially include accompanying equity or debt.

#### Earnings and Valuation:

- **We have made no changes to our earnings forecasts for KDR.**
- **Our risked NPV<sub>10</sub> valuation has increased to \$2.78/share (prior \$2.72/share) following rolling our DCF forward by six months.**

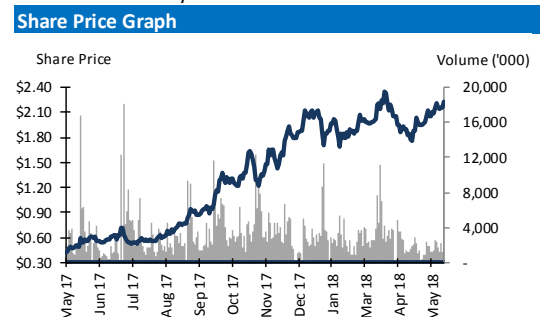
#### Recommendation:

- **We maintain our Buy recommendation and raise our 12-month price target to \$2.78/share (prior \$.272), based on our risked valuation.**
- **Catalysts** include further offtake agreements; DFS on mine; maiden JORC Reserve; Initial Refinery study; Mining approvals; Decision to mine; and Commencement of mine development.

<b>Recommendation</b>	<b>Buy</b>			
Previous	Buy			
Risk	High			
<b>Price Target</b>	<b>\$2.78</b>			
Previous	\$2.72			
<b>Share Price (A\$)</b>	<b>\$ 2.33</b>			
ASX Code	KDR			
52 week low - high (A\$)	0.405-2.37			
<b>Valuation (A\$/share) - risked</b>	<b>\$2.78</b>			
Methodology	DCF			
<b>Capital structure</b>				
Shares on Issue (M)	400			
<b>Market Cap (A\$M)</b>	<b>931</b>			
Net Cash/(Debt) (A\$M)	5			
<b>EV (A\$M)</b>	<b>926</b>			
Share rights (M)	2			
<b>Fully diluted EV (\$M)</b>	<b>930</b>			
12mth Ave Daily Volume ('000)	3,141			
<b>Y/e Jun (A\$M)</b>	<b>2017a</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Sales	0.8	0.0	0.0	38.4
Adj EBITDA	-6.7	-8.1	-9.8	14.5
<b>Adj NPAT underlying</b>	<b>-7.2</b>	<b>-8.4</b>	<b>-9.3</b>	<b>8.1</b>
Reported NPAT	-31.3	26.5	29.3	8.1
<b>Adj EPS diluted \$</b>	<b>-0.02</b>	<b>-0.02</b>	<b>-0.02</b>	<b>0.02</b>
<b>PER x diluted</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>	<b>107.6</b>
EV/EBITDA x	nm	nm	nm	35.4

<b>Board</b>	
Martin Donohue	Managing Director
John Pizzey	Non-Executive Chairman
Aaron Colleran	Non-Executive Director
David Southam	Non-Executive Director
Brad Evans	Non-Executive Director

<b>Substantial shareholders</b>	
EDM Nominees Pty Ltd	9.3%



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The analyst does not own KDR securities.

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This report was prepared by Foster Stockbroking



**Kidman Resources (KDR)**

Full Year Ended 30 June

Profit and Loss A\$M	2017a	2018e	2019e	2020e
Sales	0.8	0.0	0.0	38.4
Other revenue	0.0	33.5	0.0	0.0
Operating Costs	7.5	8.1	9.8	23.9
<b>Underlying EBITDA</b>	<b>-6.7</b>	<b>-8.1</b>	<b>-9.8</b>	<b>14.5</b>
D&A	0.0	0.1	0.1	3.0
<b>Underlying EBIT</b>	<b>-6.7</b>	<b>-8.1</b>	<b>-9.8</b>	<b>11.5</b>
Net Interest exp / (income)	0.5	0.2	-0.6	0.0
<b>Profit before tax adj</b>	<b>-7.2</b>	<b>-8.4</b>	<b>-9.3</b>	<b>11.5</b>
Tax exp / (benefit)	0.0	0.0	0.0	3.5
<b>Underlying NPAT</b>	<b>-7.2</b>	<b>-8.4</b>	<b>-9.3</b>	<b>8.1</b>
Non-recurring gain/(loss)	-24.1	34.8	38.6	0.0
<b>Reported NPAT</b>	<b>-31.3</b>	<b>26.5</b>	<b>29.3</b>	<b>8.1</b>
<b>Underlying EPS diluted (\$)</b>	<b>-0.02</b>	<b>-0.02</b>	<b>-0.02</b>	<b>0.02</b>

Cashflow A\$M	2017a	2018e	2019e	2020e
Underlying EBITDA	-6.7	-3.0	-5.0	14.5
Change in WC	-3.2	0.0	-2.0	-5.4
Tax paid	0.0	0.0	0.0	-3.5
Other	0.2	-0.1	0.0	0.0
Net interest	0.1	-0.2	0.6	0.0
Share based payments	0.7	0.0	0.0	0.0
<b>Operating Cashflow</b>	<b>-8.9</b>	<b>-3.3</b>	<b>-6.4</b>	<b>5.7</b>
Purchase of PP&E	-0.2	0.0	-25.9	-367.8
Acquisitions	-2.4	0.0	0.0	0.0
Exploration	-8.4	-5.8	-5.8	-5.8
Development	-3.1	0.0	0.0	0.0
Investments	0.1	0.0	0.0	0.0
Other	0.0	39.6	0.0	0.0
<b>Investing Cashflow</b>	<b>-14.0</b>	<b>33.8</b>	<b>-31.7</b>	<b>-373.6</b>
Equity issue	21.0	1.3	0.0	244.5
Debt proceeds	2.1	11.5	11.0	133.0
Debt repayments	-1.0	-11.4	0.0	0.0
Other	-1.4	0.0	0.0	0.0
<b>Financing Cashflow</b>	<b>20.7</b>	<b>1.4</b>	<b>11.0</b>	<b>377.5</b>
<b>Net Cashflow</b>	<b>-2.2</b>	<b>31.9</b>	<b>-27.1</b>	<b>9.5</b>

Balance Sheet A\$M	2017a	2018e	2019e	2020e
Cash	2.6	28.4	1.3	10.8
Receivables	1.8	0.0	0.0	3.2
PPE	0.1	0.1	73.0	437.8
Capitalised exploration	22.1	11.0	11.0	11.0
Other	0.1	4.4	0.0	10.1
<b>Total Assets</b>	<b>26.8</b>	<b>43.9</b>	<b>85.3</b>	<b>472.9</b>
Accounts payable	2.0	0.2	0.5	1.2
Provisions	0.2	0.2	0.8	2.0
Debt	8.4	0.0	0.0	133.0
Other	0.0	0.0	11.2	11.4
<b>Total Liabilities</b>	<b>10.7</b>	<b>0.5</b>	<b>12.5</b>	<b>147.6</b>
Reserves and capital	62.9	63.8	63.8	308.2
Retained earnings	-46.8	-20.4	9.0	17.0
<b>Total Equity</b>	<b>16.1</b>	<b>43.4</b>	<b>72.8</b>	<b>325.3</b>

Source: Foster Stockbroking estimates.

Financial Metrics	2017a	2018e	2019e	2020e
Sales growth %	nm	nm	nm	nm
EPS growth %	nm	nm	nm	nm
EBITDA margin	nm	nm	nm	38%
EBIT margin	nm	nm	nm	30%
Gearing (ND/ND+E)	27%	-189%	-2%	27%
Interest Cover (EBIT/net int)	nm	nm	17x	-456x
Average ROE %	nm	nm	-16%	4%
Average ROA %	nm	nm	-15%	4%
Wtd ave shares (M)	307	333	400	515
Wtd ave share diluted (M)	307	385	400	515

Sales and earnings multiples	2017a	2018e	2019e	2020e
P/E x	nm	nm	nm	105.5
EV/EBITDA x	nm	nm	nm	35.4
EV/EBIT x	nm	nm	nm	44.7

Company Valuation	A\$M	A\$/sh	A\$M	A\$/sh
Segment	Unrisked A\$M	Unrisked A\$/sh	Risked A\$M	Risked A\$/sh
<b>Mine &amp; concentrator:</b>				
Earl Grey 2Mtpa	550	\$1.06	<b>385</b>	<b>\$0.86</b>
Earl Grey 5Mtpa expansion - incremental vlaue	574	\$1.11	<b>230</b>	<b>\$0.51</b>
<b>Refinery:</b>				
Refinery 41kt LCE - incremental value	300	\$0.58	<b>120</b>	<b>\$0.27</b>
Potential 100kt refinery expansion - incremental	503	\$0.97	<b>201</b>	<b>\$0.45</b>
Yield: Potential higher mine recovery - incremental	688	\$1.33	<b>163</b>	<b>\$0.37</b>
<b>Corporate</b>	-42	-\$0.08	<b>-29</b>	<b>-\$0.07</b>
<b>Cash:</b>				
Balance of SQM earn-in payments	88	\$0.17	<b>70</b>	<b>\$0.16</b>
Cash from future equity raise	244	\$0.47	<b>98</b>	<b>\$0.22</b>
Net cash (debt) at end Mar 18	5	\$0.01	<b>5</b>	<b>\$0.01</b>
<b>Company Valuation</b>	2910	\$5.63	<b>1242</b>	<b>\$2.78</b>
Ordinary shares now	400		400	
Shares from future equity raise	116		46	
Rights vesting at valuation	2		1	
Pro-forma diluted shares M	517		447	

Commodity Assumptions	2017a	2018e	2019e	2020e
<b>Prices</b>				
Spodumene 6% Li <sub>2</sub> O CFR, US\$/t	695	791	835	747
Lithium carbonate min 99.5%, US\$/t	10,000	16,120	16,023	13,844
A\$:US\$	0.75	0.77	0.76	0.75
<b>Production</b>				
Spodumene 6.0% - external sales, kt	0	0	0	77.2
Lithium carbonate 99.5%, kt	0	0	0	0.0
<b>Costs</b>				
Costs - AISC, US\$/t	0	0	0	297

JORC Resources - Lithium	Ore Mt	Li <sub>2</sub> O %	Li <sub>2</sub> O kt	LCE Mt
<b>Earl Grey</b>				
Measured	66	1.58%	1040	2.6
Indicated	106	1.52%	1,610	4.0
Inferred	17	1.11%	190	0.5
<b>Total Resources</b>	<b>189</b>	<b>1.50%</b>	<b>2,840</b>	<b>7.0</b>

Capital structure	
Ordinary shares	399.6
Share rights	1.8
<b>Fully diluted equity</b>	<b>401.4</b>



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