



Mineral Resources Ltd (MIN)

Entry Date: Aug 2017

Exit Date: Dec 2017

Approximate Return: 43%

Background

MIN is a minerals processing and mining services business operating in Western Australia. It provides pit to port contract mining services and has installed large scale mineral processing equipment for iron ore miners such as Fortescue Metals and Rio Tinto. After the Global Financial Crisis, MIN took advantage of low asset prices to develop a small iron ore mining business, profitably exporting 12 million tonnes of iron ore per annum.

Alleron had previously invested in MIN in Feb 2016 as it came out of three tough years for the mining sector. With \$170 million net cash on its balance sheet and earnings having stabilised, it was poised to improve. At that time MIN was valued at only 10x earnings, but subsequently achieved record highs as earnings climbed 60% from their lows. Alleron exited in Dec 2016 after the stock price had doubled.

Energy Argument

Alleron re-entered MIN in Aug 2017 when the company provided evidence that it had grown a new earnings stream in the form of lithium exports for the developing electric car industry. MIN had made a small investment in 2015 in the Mt Marion project in partnership with Neometals and Chinese lithium producer Jiangxi Ganfeng Lithium. This partnership made \$40 million in 2017. The company was also developing the Wodgina lithium project, which was 100% owned and had the potential to be much larger than the Mt Marion project.

Entry Trigger

The trigger for entry was the company's provision of earnings guidance for FY18 of at least \$500 million in EBITDA. The company had just delivered \$460 million in EBIT for FY17, whilst iron ore prices were softening. More importantly, the price of their lower grade iron ore was falling more than the price for higher grades, which implied a FY18 expectation of \$200m in earnings from lithium. \$200m represented five times more than their FY17 lithium earnings, confirming the Energy Argument.

Exit – Trigger Invalidation

Alleron exited MIN in Dec 2017 when our entry trigger was invalidated. MIN had made a takeover bid for Australian Worldwide Exploration (AWE), an oil and gas producer. From Alleron’s point of view, this increased the downside risk relative to the upside potential, as it seemed that the significant expansion opportunities in lithium required the development of gas reserves owned by AWE. Figure 1 shows MIN entry and exit, with long positions highlighted in green.

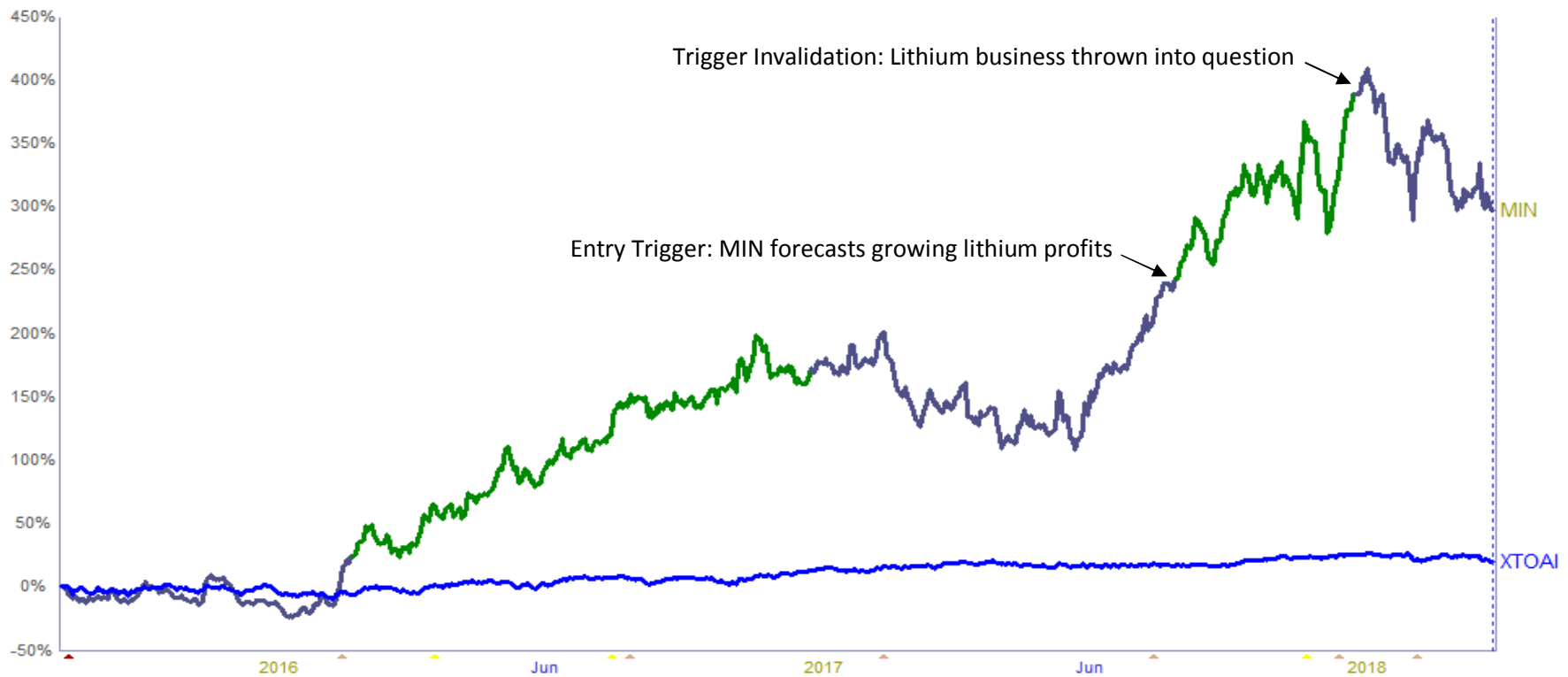


Figure 1: Alleron MIN Investment (Aug 2017 – Dec 2017)



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