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# Nickel Industries Ltd (NIC)

Showing intent on shareholder returns

**Recommendation**  
**Buy** (unchanged)  
**Price**  
**\$0.83**  
**Target (12 months)**  
**\$1.47** (previously \$1.41)

**Sector**  
**Materials**

**Expected Return**

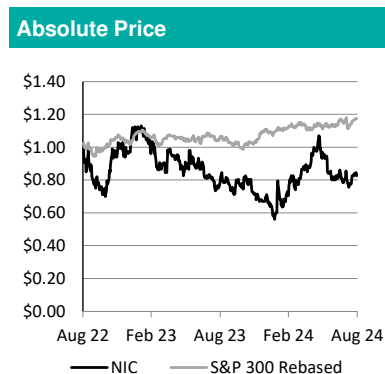
Capital growth	77%
Dividend yield	6%
Total expected return	83%

**Company Data & Ratios**

Enterprise value	\$4,508m
Market cap	\$3,557m
Issued capital	4,286m
Free float	54%
Avg. daily val. (52wk)	\$8.1m
12 month price range	\$0.54-\$1.085

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	0.81	1.00	0.75
Absolute (%)	3.1	-16.6	10.7
Rel market (%)	1.6	-20.5	-2.1



SOURCE: IRESS

## 1HCY24 financial result

NIC reported its 1HCY24 financial result. As expected, a 27% drop in weighted average contract pricing led to declines across all key financial metrics, with the exception of the declaration of a A2.5cps unfranked interim dividend, up 25% from A2.0cps vs the pcp and our A2.0cps forecast. This was the highlight of the result, in our view, and signals strong intent on increasing shareholder returns. NIC reported revenue of US\$843m (BPe US\$816m), EBITDA of US\$131m (BPe US\$136m), consolidated NPAT of US\$14m (BPe US\$30m) and attributable NPAT of US\$5.1m (BPe US\$17.1m). The main differences compared with our forecasts were higher D&A charges, higher withholding tax as production rose and higher distributions to non-controlling interests.

## Margins maintained, dividend up in tough market

While the result was technically a miss, costs were well-controlled and EBITDA margins were maintained (1HCY24 16% vs 15% pcp) despite the material drop in contract pricing. NIC has continued to demonstrate its ability to make money through a low point in the nickel price cycle and we view this as a key strength. The increased interim dividend was ahead of our expectations (we had been expecting it in 1HCY25). We forecast this to be sustainable, with upside potential. For CY24 we now forecast A5cps for a 6% yield (unfranked) – in our view, attractive for a long-life business working through a cyclical low in the commodity price. That this has been achieved in one of the toughest nickel markets in decades is impressive.

## Investment thesis – Buy, TP\$1.47/sh (from Buy, TP\$1.41/sh)

EPS changes in this report are: CY24: -9%; CY25: -1%; and CY26: +4% on higher D&A and tax charges. Our NPV-based valuation is up 4% to \$1.47/sh as we roll our model forward and increase our exploration valuation for the acquisition of the Sampala laterite nickel project. NIC is one of the world's largest listed nickel producers and offers exposure across a range of nickel products and markets. It continues to trade on undemanding valuation multiples. Retain Buy.

**Earnings Forecast**

Year ending 31 December	2023a	2024e	2025e	2026e
Sales (US\$m)	1,880	1,748	2,326	3,898
EBITDA (US\$m)	403	395	637	1,135
Attributable NPAT (reported) (US\$m)	122	102	258	524
Attributable NPAT (reported) (A\$m)	183	154	369	749
EPS (adjusted) (Acps)	5.4	3.6	8.6	17.5
EPS growth (%)	-37%	-33%	140%	103%
PER (x)	15.5	23.1	9.6	4.8
FCF Yield (%)	-49%	-7%	12%	44%
EV/EBITDA (x)	7.6	7.8	4.8	2.7
Dividend (Acps)	4.5	5.0	5.0	9.0
Yield (%)	5.4%	6.0%	6.0%	10.8%
Franking (%)	0%	0%	0%	0%
ROE (%)	9%	6%	15%	31%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Showing intent on shareholder returns

## 1HCY24 result summary

Key metrics from the 1HCY24 financial result are summarised below:

Table 1 - NIC financial result summary							
Half-year financials (Consolidated basis)	Jun-23 HY (a)	Dec-23 HY (a)	Dec-23 FY (a)	Jun-24 HY (a)	Jun-24 HY (BPe)	Variance vs BPe	Variance vs pcp
Revenue (US\$m)	932.3	947.8	1,880.1	843.3	815.8	3%	-10%
EBITDA (US\$m)	161.3	242.0	403.3	131.3	135.9	-3%	-19%
NPAT reported (US\$m)	49.1	127.2	176.2	14.0	29.9	-53%	-71%
NPAT attributable (US\$m)	27.1	94.5	121.6	5.1	17.1	-70%	-81%
EPS attributable (Ac/sh)	1.2	4.2	5.4	0.2	0.6	-70%	-84%
Dividend (Ac/sh)	2.0	2.5	4.5	2.5	2.0	25%	25%
Free cash flow (US\$m)	-93.2	-830.2	-923.3	295.8	-194.0	na	na
Cash balance (US\$m)	364.0	284.1	284.1	358.1	358.0	0%	-2%
Debt (US\$m)	656.6	845.0	845.0	753.8	755.0	0%	15%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

NIC reported its 1HCY24 financial result. As expected, a 27% drop in weighted average contract pricing led to declines across all key financial metrics, with the exception of the declaration of a A2.5cps unfranked interim dividend, up 25% from A2.0cps vs the pcp and our A2.0cps forecast. This was the highlight of the result, in our view, and signals strong intent on increasing shareholder returns.

NIC reported revenue of US\$843m (BPe US\$816m), EBITDA of US\$131m (BPe US\$136m), consolidated NPAT of US\$14m (BPe US\$30m) and attributable NPAT of US\$5.1m (BPe US\$17.1m). The main differences compared with our forecasts were higher D&A charges, higher withholding tax as production rose and higher distributions to non-controlling interests.

NIC ended 1HCY24 with cash of US\$352m and gross debt of US\$754m for net debt of US\$402m (from US\$66m at 31 December 2023). During 1HCY24 NIC lifted its interest in the Excelsior Nickel Cobalt project (ENC) to 27.5% via a cash payment of US\$316.3m. Post period-end, NIC made a further US\$379.5m acquisition payment to increase its ownership interest in the ENC to 44%.

Other key takeaways from the result include:

- Commentary was provided that, following permitting and weather delays experienced in 1HCY24, operations at the Hengjaya Mine had ramped up successfully, with new production records being set and indicating a stronger 2HCY24;
- The Huayue Nickel Cobalt (HNC) HPAL project (NIC 10% interest) is maintaining production rates of ~80ktpa Ni in Mixed Hydroxide Precipitate (MHP), ahead of its ~70ktpa nameplate and above our forecasts for both it and the ENC HPAL project;
- The construction of the ENC HPAL project continues ahead of schedule, with commissioning now likely in 3QCY25 ahead of the contracted October 2025 date; and
- Trial sales of nickel cathode are indicating LME delivery standards can be met, implying the potential for sales at LME cash prices which would be ahead of our payability assumptions.

## Sampala project acquisition

NIC also announced the conditional acquisition of a 60% interest in the Sampala laterite nickel project, located ~37km from the Indonesia Morowali Industrial Park (IMIP). We view this as a positive development and one that makes strategic and financial sense. With the growth of nickel production in Indonesia and the demonstrated profitability of these operations (NIC's Hengjaya Mine generated US\$39m EBITDA in 1HCY24), competition for these assets has increased.

Acquiring laterite nickel resources that could potentially support 40-50 years of nickel production for NIC ensures supply security is a long-term strategic benefit, as is the control of operational standards to ensure permits are retained and the ESG transparency and traceability of production. Even with significant Resource growth we estimate total consideration would be ~US\$150-US\$200m, easily funded by cash flow on our current forecasts and implying attractive EV/EBITDA multiples.

## Changes to our forecasts

Beyond updating for the 1HCY24 financial result, we make the following changes to our modelled assumptions:

- Increase our forecast D&A charges, reflecting increased production rates and management guidance;
- Increase our assumed tax and finance costs, reflecting higher reported charges in 1HCY24;
- Increase our CY24 dividend distribution; and
- Update for NIC's latest net cash position and capital structure and roll our model forward.

The net impacts of these changes are summarised in the table below:

Table 2 - Changes to our CY forecasts									
Year end 31 December	Previous			New			Change		
	Dec-24	Dec-25	Dec-26	Dec-24	Dec-25	Dec-26	Dec-24	Dec-25	Dec-26
<b>Prices &amp; currency</b>									
Nickel price (US\$/t)	17,509	19,290	20,503	17,509	19,290	20,503	0%	0%	0%
US\$/A\$	0.66	0.70	0.70	0.66	0.70	0.70	0%	0%	0%
<b>Production &amp; costs</b>									
Ore mined (t)	7,500,000	9,100,000	9,100,000	7,500,000	9,100,000	9,100,000	0%	0%	0%
Nickel in ore (t)	52,925	65,250	65,250	52,925	65,250	65,250	0%	0%	0%
RKEF NPI production (t)	112,165	114,404	114,404	112,165	114,404	114,404	0%	0%	0%
Contained nickel (t)	9,950	11,380	11,882	9,950	11,380	11,882	0%	0%	0%
Contained nickel (t, attributable)	8,073	13,997	48,762	8,073	13,997	48,762	0%	0%	0%
Cash costs (US\$/t Ni)	10,108	10,461	10,723	10,108	10,461	10,723	0%	0%	0%
<b>Earnings &amp; valuation</b>									
Revenue (consolidated, US\$m)	1,731	2,320	3,860	1,748	2,326	3,898	1%	0%	1%
EBITDA (consolidated, US\$m)	389	626	1,098	395	637	1,135	2%	2%	3%
EBITDA (attributable, US\$m)	329	492	768	343	500	790	4%	2%	3%
NPAT (consolidated, US\$m)	160	361	773	148	360	807	-8%	0%	4%
NPAT (attributable, US\$m)	112	260	504	102	258	524	-9%	-1%	4%
EPS (reported) (Acps)	3.9	8.7	16.8	3.6	8.6	17.5	-9%	-1%	4%
PER (x)	21.0	9.6	4.9	23.1	9.6	4.8	2.1	0.1	(0.2)
EPS growth (%)	-27%	120%	94%	-33%	140%	103%	-7%	19%	9%
DPS (Acps)	4.5	5.0	9.0	5.0	5.0	9.0	11%	0%	0%
Yield	5.4%	6.0%	10.8%	6.0%	6.0%	10.8%	1%	0%	0%
NPV (A\$/sh)	1.03	1.41	1.49	1.10	1.47	1.55	7%	4%	4%
Price Target (A\$/sh)		1.41			1.47			4%	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

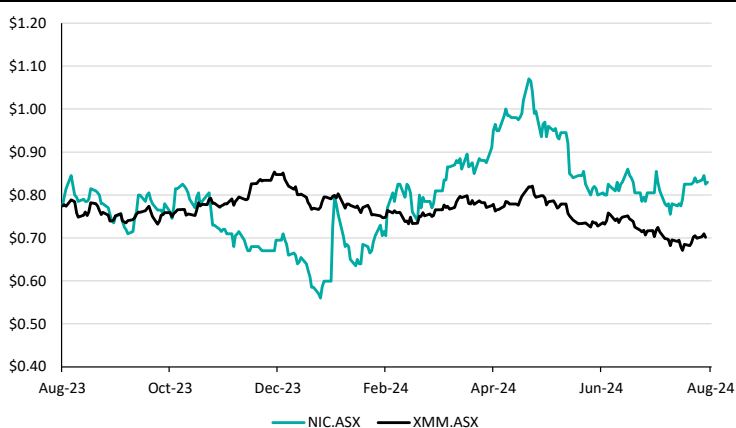
## Upcoming catalysts

Upcoming catalysts for NIC include:

- Release of NIC's September quarter production and cost report, expected in late October 2024;
- Construction updates for the ENC HPAL plant, which is progressing ahead of its scheduled commissioning target of October 2025;
- Progress updates for the Hengjaya Mine, where production ramp-up of limonite nickel ore sales are increasing in CY24 following the completion of the new haul road;
- Update on qualification of potential sales of nickel cathode from the ENC HPAL project (under construction) to a leading Western space and aeronautical company;
- Payment of the final scheduled investment instalments for the ENC HPAL project of: US\$126.5m in each of July and October 2025 to lift NIC's interest to 55%;
- The potential sale of NIC's option over a further 20% interest in the ENC HPAL project (over and above its targeted 55% interest); and
- Exploration and development updates on the Sampala and Siduarsi Nickel-Cobalt laterite ore projects.

## NIC vs the ASX Metals and Mining Index

Figure 1 - NIC relative share price performance vs ASX Metals and Mining Index (XMM)



SOURCE: IRESS

# Nickel Industries Limited (NIC)

## Company description: fully integrated NPI producer

Nickel Industries Limited ('Nickel Industries' or 'NIC') was formed in 2007 and listed on the ASX in 2018 as Nickel Mines Ltd. Its operations are focused in Indonesia, where it holds an 80% interest four Rotary Kiln Electric Furnace (RKEF) NPI production lines (the two Hengjaya lines and the two Ranger lines), an 80% interest in the Oracle Nickel Project, comprising four new generation RKEF NPI production lines, a 10% interest in the Huayue Nickel Cobalt (HNC) HPAL project and a 55% interest in the Excelsior Nickel Cobalt (ENC) HPAL project which is under construction. All these projects are within the Indonesia Morowali Industrial Park (IMIP), a fully integrated stainless steel production facility in Central Sulawesi, Indonesia and in partnership with Shanghai Decent Investments (SDI) a subsidiary of Tsingshan Group, the world's largest stainless steel producer.

NIC also holds an 80% interest in the Angel Nickel Project, comprising four new generation RKEF NPI production lines currently in production within the Indonesia Weda Bay Industrial Park (IWIP) on Halmahera Island in Indonesia.

NIC also holds an 80% interest in Hengjaya Mine ('HM'), a high-grade, long-life nickel laterite deposit, in close proximity to the IMIP. The HM produces Direct Shipping Ore (DSO), the bulk of which is sold into the IMIP facility.

## Investment thesis – Buy, TP\$1.47/sh (from Buy, TP\$1.41/sh)

EPS changes in this report are: CY24: -9%; CY25: -1%; and CY26: +4% on higher D&A and tax charges. Our NPV-based valuation is up 4% to \$1.47/sh as we roll our model forward and increase our exploration valuation for the acquisition of the Sampala laterite nickel project. NIC is one of the world's largest listed nickel producers and offers exposure across a range of nickel products and markets. It continues to trade on undemanding valuation multiples. Retain Buy.

## Valuation: \$1.47/sh

Our 12-month forward NIC valuation incorporates DCF models of its attributable interests in the Hengjaya laterite nickel ore mine (HM), its 80% interests in the Hengjaya Nickel RKEF lines, the Ranger Nickel RKEF lines, Angel Nickel RKEF lines and Oracle Nickel RKEF lines.

We also include an NPV-based valuation for NIC's 10% interest in the HNC HPAL plant and a risk-adjusted NPV-based valuation for the ENC HPAL plant, which is currently under construction and in which NIC will hold a 55% interest.

We also include a notional value for other exploration and development projects, an estimate of corporate overhead costs and NIC's last reported net cash position. Our valuation is calculated on a fully diluted basis.

## Risks

Key risks to our investment case include (but are not limited to):

- **Funding and capital management risks:** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments. Exploration and development companies with no sales revenues are reliant on access to equity markets and debt financing to fund the advancement and development of their projects.
- **Operating and development risks:** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single mine company. Development of mining assets may be subject to receiving permits, approvals timelines or weather events, causing delays to commissioning and commercial production.
- **COVID-19 risks:** Mining companies rely on freedom of movement of workforces, functioning transport routes, reliable logistics services including road, rail, aviation and ports in order to maintain operations and get their products to market. They also rely on liquid, functioning markets to sell their products. Measures being put in place to combat the COVID-19 pandemic are posing risks to these conditions.
- **Operating and capital cost fluctuations:** The cost and availability of exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour costs as well as access to, and availability of, technical skills, operating equipment and consumables.
- **Commodity price and exchange rate fluctuations:** The future earnings and valuations of exploration, development and producing Resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Resource growth and mine life extensions:** The viability of future operations and the earnings forecasts and valuations reliant upon them may depend upon resource and reserve growth to extend mine lives, which is in turn dependent upon exploration success, of which there are no guarantees.
- **Regulatory changes risks:** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies. NIC's assets are located in Sulawesi, Indonesia, which has in the past implemented regulatory changes related to mining project ownership, fiscal terms and mineral export requirements.
- **Geopolitical risks:** Mining companies' assets are subject to geopolitical risks, arising from events in, and outside, the jurisdictions they operate in.
- **Sovereign risks:** Mining companies' assets are subject to the sovereign risks of the jurisdiction within which they are operating. NIC's assets are in Indonesia, a G20 country with one of the largest economies in SE Asia. Its sovereign debt is rated investment grade by the major ratings agencies.
- **Corporate/M&A risks:** Risks associated with M&A activity including differences between the entity's and the market's perception of value associated with completed transactions. NIC is the junior partner co-investing in production assets with a large, privately owned Chinese company. The strength and cohesiveness of this relationship over the long term has the potential to both add and reduce value to the partnership. A mitigating factor in this respect has been the +20% holding in NIC equity.





**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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