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Nickel Mines Ltd (NIC)

Capital efficient growth

Recommendation
Buy (unchanged)
Price
$1.085
Target (12 months)
$1.60 (previously $1.56)

GICS Sector

Materials

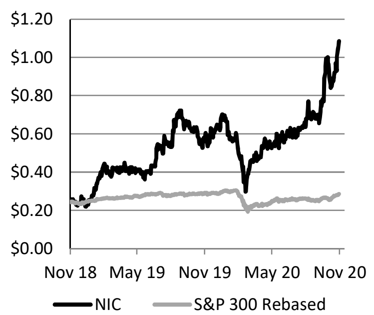
Expected Return	
Capital growth	**47.5%**
Dividend yield	**1.8%**
Total expected return	**49.3%**

Company Data & Ratios	
Enterprise value	**$2,243m**
Market cap	**$2,309m**
Issued capital	**2,128m**
Free float	**76%**
Avg. daily val. (52wk)	**$4.8m**
12 month price range	**$0.29-$1.10**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.99	0.64	0.53
Absolute (%)	9.6	70.9	106.1
Rel market (%)	1.5	61.5	105.7

Absolute Price



SOURCE: IRESS

Binding agreement executed for 70% of Angel Nickel

NIC announced it has executed a binding Definitive Agreement with its partner, Shanghai Decent Investment Group (SDI), to acquire a 70% equity interest in the Angel Nickel Project (Angel Nickel). Angel Nickel is currently under construction within the Indonesia Weda Bay Industrial Park ('IWIP') on Halmahera Island in Indonesia. The project comprises four new generation RKEF Nickel Pig Iron (NPI) production lines with nameplate capacity of 36,000tpa Ni in NPI and a captive 380MW power station. The agreement provides for NIC to pay the consideration for its 70% interest in Angel Nickel in two tranches: i) an initial acquisition of a 30% interest at cost of US$210m to be finalised no later than 31 March 2021; and ii) the acquisition of an additional 40% interest at cost of US$280m to be finalised no later than 31 December 2021 (100%-basis valuation of US$700m). NIC currently intends to fund the US$490m consideration with a combination of 50% debt and 50% equity.

Demonstrated value, potential upside

We view this as a positive development. The acquisition has been de-risked by the strong performance demonstrated to date by NIC's existing operations at the IMIP, which were delivered ahead of schedule and have performed above nameplate production and below forecast operating costs. It is validated by the capital efficiency, strong EBITDA margins and returns on equity at the IMIP's Hengjaya and Ranger lines. It is also worth considering the acquisition cost of US$490m (just 30% of NIC's current Enterprise Value) in the context of either the approximate doubling of NIC's attributable nameplate production or the 60% increase on NIC's current production.

Investment thesis – Buy, TP$1.60/sh (from Buy, $1.56/sh)

There are no changes to our CY20 earnings forecasts, but the cash payments made to date plus the debt drawdown and equity dilution in CY21 result in a 12% cut to earnings and an 18% cut to EPS in CY21. The acquisition drives production and earnings growth from CY23, when we forecast earnings growth of 46% vs our previous forecasts. Our NPV-based, sum-of-the-parts valuation lifts by 3%, to $1.60/sh.

Earnings Forecast

Year ending 31 December	**2019a***	**2020e**	**2021e**	**2022e**
Sales (US$m)	236	512	658	712
EBITDA (US$m)	97	189	349	388
Attributable NPAT (reported) (US$m)	57	94	218	257
Attributable NPAT (reported) (A$m)	83	137	311	356
EPS (adjusted) (A¢ps)	4.4	7.8	13.5	14.4
EPS growth (%)	46%	13%	73%	6%
PER (x) 1	10.7	13.9	8.0	7.5
FCF Yield (%) 1	2%	7%	-8%	19%
EV/EBITDA (x) 1	16.9	8.7	4.7	4.2
Dividend (A¢ps)	-	2	1	2
Yield (%)	0%	2%	1%	2%
Franking (%)	0%	0%	0%	0%
ROE (%) 1	49%	30%	33%	27%

SOURCE: BELL POTTER SECURITIES ESTIMATES *Transitional 6 month period to Dec-19. Change of Financial Year end from June to Decembe
1: Metrics annualised for 6 month period to Dec-19

Capital efficient growth

Binding agreement executed for 70% of Angel Nickel

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The execution of this agreement follows the signing of an MoU in October 2020 and associated US$10m "good faith payment" which is deductible from the acquisition amounts. NIC will now also make a US$20m down payment on the execution of this binding agreement. The agreement provides for NIC to pay the consideration for its 70% interest in Angel Nickel in two tranches:

- An initial acquisition whereby NIC will acquire an initial interest of 30% in Angel Nickel and 30% of all shareholder loans due to SDI at cost of US$210m (based on a valuation of US$700m) to be finalised no later than 31 March 2021.
- Under the second acquisition NIC will acquire an additional 40% in Angel Nickel and 40% of all shareholder loans due to SDI at cost of US$280m (valuation US$700m) to be finalised by no later than 31 December 2021.

The ownership structure for Angel Nickel will replicate that put in place for the existing Ranger and Hengjaya Nickel projects at the IMIP.

Acquisition funding

NIC has a balance of US$180m to pay to complete the initial interest acquisition for a total remaining balance of US$460m to acquire its 70% interest. NIC intends to fund this with a combination of debt and equity, notionally proposed to be on a 50:50 split. NIC has stated that discussions with banks and other financial institutions are well progressed.

Other terms and conditions

Other key terms and conditions of the acquisition include:

- Project commissioning to commence no later than 16 October 2022;
- Nameplate capacity to exceed 36,000tpa of Ni in NPI;
- SDI to indemnify Angel Nickel for construction costs exceeding US$700m;
- SDI to purchase all NPI production from Angel Nickel at market prices; and
- Completion of the transaction is subject to approval by NIC shareholders.

Table 1 - Angel Nickel acquisition terms compared to previous acquisition

Transaction	Angel Nickel – 70% acquisition	Ranger and Hengjaya to 80% (from 60%)
Valuation (100%-basis)	**US$700m**	US$600m
Completion date(s)	**31 March and 31 December 2021**	30 June 2020
Funding	**50% equity / 50% debt**	100% equity / cash on hand
Nameplate capacity	**36,000tpa Ni in NPI**	33,000tpa Ni in NPI (actual ~42,000tpa)
Attributable nameplate capacity	**25,200tpa Ni in NPI**	26,400tpa Ni in NPI
Capital intensity	**US$19,444/t**	US$18,181/t
Power station	**380MW included**	~2GW 3rd party ownership

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Demonstrated value, potential upside

As when the MoU was announced, we view this as a positive development. The acquisition has been de-risked by the strong performance demonstrated to date by NIC's existing operations at the IMIP, which were delivered ahead of schedule and have performed above nameplate production and below forecast operating costs.

We also view the acquisition as being validated by the capital efficiency, strong EBITDA margins at the Hengjaya and Ranger lines as well as good returns on equity. This investment is being made at a higher underlying valuation (US$700m vs US$600m for the most recent acquisitions at the IMIP), but includes ownership of the power station which is likely to deliver lower operating costs.

It is also worth considering **the acquisition cost of US$490m as just 30% of NIC's current Enterprise Value** of ~US$1,645m. In the context of either the **approximate doubling of NIC's attributable nameplate production**, or the 60% increase on NIC's current steady-state production, it looks to be very good value.

With the execution of a binding agreement we have now incorporated Angel Nickel at the IWIP into our formal financial performance forecasts under the following key assumptions:

- NIC funds the US$490m consideration with 50% debt and 50% equity via drawdown of debt in early 2021 and a share placement of US$245m (A$350m assuming AUD:USD of 0.70 and placement price of A$1.00/sh);
- The Angel Nickel RKEF lines commence commissioning in the December quarter 2022 and ramp-up to nameplate production is achieved in the June quarter 2023; and
- Similar operating costs (marginally higher) to the Ranger and Hengjaya RKEF lines at the IMIP.

We had previously valued Angel Nickel on a risk-adjusted NPV basis. To reflect the execution of the acquisition agreement and the development stage of the project we have reduced our risk adjustment discount from 30% to 10%, consistent with other development projects we have under coverage.

Figure 1 - RKEF lines at the IWIP - under construction

SOURCE: COMPANY DATA

Upside to our forecasts and valuation

We note a number of factors that may deliver upside from our current assumptions:

- Tax concessions: we currently assume a corporate income tax rate of 25% for Angel Nickel. We make no allowance for the tax concessions applied to the Ranger and Hengjaya projects, which qualified for 7-year tax holiday (0% tax rate) and discounted tax rate (12.5%) for the following 2 years;
- Commissioning in December quarter 2022: Both the Ranger and Hengjaya lines were completed and ramped up to nameplate production ahead of schedule, showing potential for cash flows to be brought forward;
- Operating costs: in our view there is potential for the 'next-generation' RKEF lines at Angel Nickel to achieve lower operating costs due to direct ownership of the power station, closer proximity to greater raw material volumes (reducing shipping costs) plus incremental design improvements; and
- Nameplate production: the Ranger and Hengjaya lines carry a nameplate of 33ktpa Ni in NPI but are currently running at a steady-state of 42ktpa Ni in NPI, i.e. 27% above nameplate.

Changes to our forecasts

Following, the execution of a binding agreement for NIC's acquisition of a 70% interest in Angel Nickel we have made the following changes to our modelled assumptions:

- Formally incorporated its acquisition and operation into our financial forecasts;
- Included funding of the US$490m consideration with 50% debt and 50% equity via drawdown of US$245m debt in early 2021 and a share placement of US$245m (A$350m assuming AUD:USD of 0.70 and placement price of A$1.00/sh); and
- Reduced our risk adjustment discount from 30% to 10%, consistent with other development projects we have under coverage.

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

Table 2 - Changes to our CY forecasts

	Previous			New			Change		
Year end 30 December	**Dec-20**	**Dec-21**	**Dec-22**	**Dec-20**	**Dec-21**	**Dec-22**	**Dec-20**	**Dec-21**	**Dec-22**
Prices & currency									
Nickel price (US$/t)	13,532	16,424	17,527	13,532	16,424	17,527	0%	0%	0%
US$/A$	0.68	0.70	0.72	0.68	0.70	0.72	0%	0%	0%
Production & costs									
Ore mined (t)	728,892	1,560,000	1,560,000	728,892	1,560,000	1,560,000	0%	0%	0%
Nickel in ore (t)	13,231	28,080	28,080	13,231	28,080	28,080	0%	0%	0%
RKEF NPI production (t)	294,984	304,615	304,615	294,984	304,615	304,615	0%	0%	0%
Contained nickel (t)	42,757	42,646	40,362	42,757	42,646	40,362	0%	0%	0%
Contained nickel (t, attributable)	29,926	34,117	32,289	29,926	34,117	32,289	0%	0%	0%
Cash costs (US$/t Ni)	7,279	7,521	7,760	7,279	7,521	7,760	0%	0%	0%
Earnings & valuation									
Revenue (consolidated, US$m)	512	658	672	512	658	712	0%	0%	6%
Revenue (attributable, US$m)	380	554	561	380	554	590	0%	0%	5%
EBITDA (attributable, US$m)	136	275	291	136	275	306	0%	0%	5%
NPAT (reported, attributable, US$m)	94	246	270	94	218	257	0%	-12%	-5%
EPS (reported) (Acps)	7.8	16.5	17.7	7.8	13.5	14.4	0%	-18%	-19%
PER (x)	13.9	6.6	6.1	13.9	8.0	7.5	-	1.5	1.4
EPS growth (%)	13%	112%	7%	13%	73%	6%	0%	-39%	0%
DPS (Acps)	2	2	2	2	1	2	0%	-50%	0%
Yield	2%	2%	2%	2%	1%	2%	0%	-1%	0%
NPV (A$/sh)	1.56	1.78	1.90	1.60	1.78	2.22	3%	0%	17%
Price Target (A$/sh)	1.56			1.60			3%		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Our updated assumptions result in no changes to our CY20 earnings forecasts, but the cash payments made to date plus the debt drawdown and equity dilution in early CY21 result in a 12% cut to earnings and an 18% and 19% cut in EPS in CY21 and CY22 respectively. This is offset by the lower risk discount applied to Angel Nickel contributing to our NPV-based, sum-of-the-parts valuation, which lifts by 3%, to $1.60/sh.

The Angel Nickel acquisition contributes to production and earnings growth from CY23, just beyond our current forecast period. For CY23 we forecast earnings growth of 46% vs our previous forecasts and EPS growth of 25% vs our previous forecasts. This improves further in CY24 as debt service costs and repayments roll off. Note, these forecasts also incorporate the standard assumed income tax rate applying to Angel Nickel.

Table 3 - Earnings and cash flow growth forecasts for CY23

	Dec-23 New	Dec-23 Previous	Variance New vs Previous
Revenue (US$m)	1228.2	669.7	83%
EBITDA (US$m)	655.5	358.1	83%
NPAT underlying (US$m)	416.0	285.0	46%
NPAT reported (US$m)	416.0	285.0	46%
EPS reported (Ac/sh)	22.7	18.1	25%
Dividend (Ac/sh)	0.02	0.03	50%
Free cash flow (US$m)	666.67	370.9	80%

SOURCE: BELL POTTER SECURITIES ESTIMATES

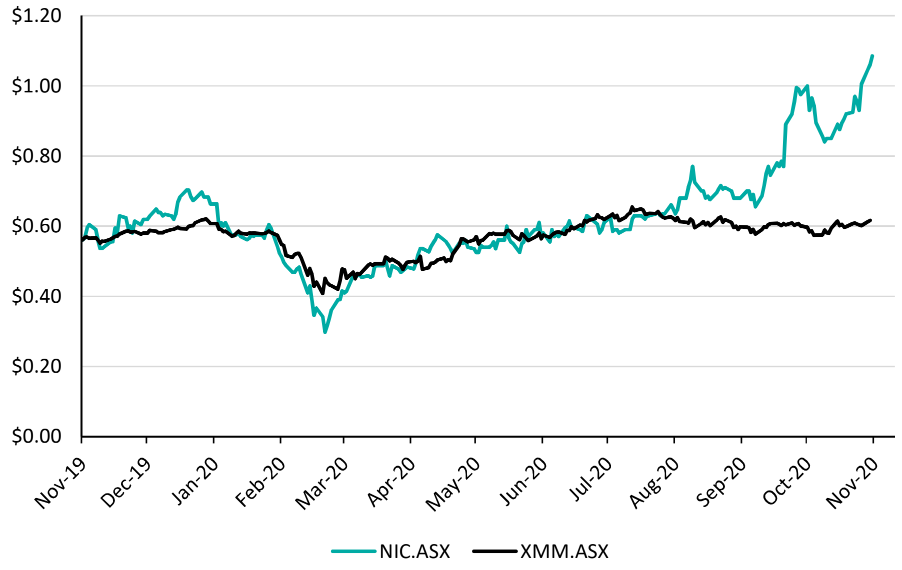
Upcoming catalysts

Upcoming catalysts for NIC include:

- Ongoing production updates from the Hengjaya and Ranger Nickel RKEF lines. Both projects have now achieved established production levels above nameplate. Ongoing updates will reinforce the sustainability of these production levels;
- Updates on the construction of the Angel Nickel project, comprising 4 next-generation rotary-kiln-electric-furnace (RKEF) lines within the Indonesia Weda Bay Industrial Park (IWIP), for which NIC has now executed a binding agreement to acquire a 70% interest;
- The release of NIC's December 2020 quarterly production and cost report, expected in late January 2021;
- Updates on Ni in NPI pricing and payability, which we would like to see sustained at 90% of the LME nickel price, or better;
- Progress updates for the Hengjaya Mine, where a major production expansion is underway, targeting production of 150kt ore per month and costs of ~US$18/t over the course of CY20; and
- Updates on the ownership levels of the 80%-owned Hengjaya Mine, which is subject to Indonesia's compulsory divestment laws.

NIC vs the ASX Metals and Mining Index

Figure 2 - NIC relative share price performance vs ASX Metals and Mining Index (XMM)



SOURCE: IRESS

Nickel Mines Limited (NIC)

Company description: fully integrated NPI producer

Nickel Mines Limited ('Nickel Mines' or 'NIC') was formed in 2007 and listed on the ASX in 2018. Its operations are focused in Central Sulawesi, 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) with Shanghai Decent Investments (SDI) a subsidiary of Tsingshan Group, the world's largest stainless steel producer. The RKEF lines are located in an existing, fully integrated stainless steel production facility, the Indonesian Morowali Industrial Park (IMIP).

First production from the Hengjaya Lines was achieved on 31 January 2019 and the Ranger Lines commenced production during the September quarter 2019. Both projects have since achieved steady state production of ~20ktpa contained Ni in NPI, exceeding nameplate production of ~16ktpa each at lower than planned operating costs.

In November 2020 NIC executed a binding agreement to acquire a 70% interest in the Angel Nickel Project comprising four new generation RKEF NPI production lines and a captive 380MW power station. Angel Nickel is currently under construction 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, also in Central Sulawesi in close proximity to the IMIP. The HM produces Direct Shipping Ore (DSO), the bulk of which is sold into the IMIP facility for the production of Nickel Pig Iron (NPI), a key input into stainless steel production.

Investment thesis – Buy, TP$1.60/sh (from Buy, $1.56/sh)

There are no changes to our CY20 earnings forecasts, but the cash payments made to date plus the debt drawdown and equity dilution in CY21 result in a 12% cut to earnings and an 18% cut to EPS in CY21. The acquisition drives production and earnings growth from CY23, when we forecast earnings growth of 46% vs our previous forecasts. Our NPV-based, sum-of-the-parts valuation lifts by 3%, to $1.60/sh.

Valuation: $1.60/sh

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

We have constructed a discounted cash flow (DCF) model for NIC's attributable interest in these RKEF lines that are in production at Tsingshan's IMIP facility and a DCF calculation for NIC's current 80% interest (declining to 49% by FY2023) in the Hengjaya laterite nickel ore mine.

We also include a risk-adjusted, NPV-based valuation for NIC's prospective 70% interest in the Angel Nickel Industry ANI project, 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. Following the latest update, our valuation stands at $1.60/sh.

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.
- **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. One of the key mitigating factors in this respect has been the investment of a combined US$50m by SDI and Wanlu Investments (US$26m and US$24m respectively) into NIC equity.

Nickel Mines Ltd
as at 26 November 2020

Recommendation	Buy
Price	$1.085
Target (12 months)	$1.60

Table 4 - Financial summary

PROFIT AND LOSS

Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e
Revenue	US$m	64.9	236.1	511.7	658.5	712.2
Expense	US$m	(44.5)	(138.9)	(323.0)	(309.3)	(324.3)
EBITDA	**US$m**	**20.4**	**97.2**	**188.7**	**349.1**	**387.8**
Depreciation	US$m	(6.8)	(16.4)	(35.8)	(37.1)	(43.4)
EBIT	US$m	13.6	80.8	152.8	312.1	344.4
Net interest expense	US$m	0.2	(2.1)	(3.7)	(13.9)	(11.5)
Unrealised gains (Impairments)	US$m	57.3	7.4	-	-	-
Other	US$m	0.7	5.4	(11.3)	(12.3)	-
PBT	**US$m**	**71.9**	**91.5**	**137.9**	**285.9**	**332.9**
Tax expense	US$m	(0.1)	(0.2)	(0.2)	(3.4)	(5.9)
Consolidated profit (loss) for the year	US$m	71.8	91.3	137.6	282.5	327.0
Non-Controlling Interest	US$m	6.3	34.8	43.9	64.6	70.4
Attributable NPAT (reported)	**US$m**	**65.5**	**56.5**	**93.8**	**217.9**	**256.5**
NPAT (underlying)	US$m	8.2	49.1	93.8	217.9	256.5

CASH FLOW

Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e
OPERATING CASHFLOW						
Receipts	US$m	33.4	212.7	557.7	643.8	706.8
Payments	US$m	(28.4)	(169.9)	(294.7)	(312.7)	(320.6)
Tax	US$m	(1.2)	(4.7)	0.1	(0.2)	(3.4)
Net interest	US$m	0.2	0.1	(3.7)	(13.9)	(11.5)
Other	US$m	-	-	(3.7)	-	-
Operating cash flow	**US$m**	**4.1**	**38.2**	**255.7**	**316.9**	**371.3**
INVESTING CASHFLOW						
Property, plant and equipment	US$m	(19.5)	(29.6)	(162.0)	(462.9)	(3.7)
Mine development	US$m	-	-	-	-	-
Exploration & evaluation	US$m	-	-	(0.5)	(0.4)	(0.4)
Other	US$m	(121.1)	5.8	-	-	-
Investing cash flow	**US$m**	**(140.6)**	**(23.8)**	**(162.5)**	**(463.3)**	**(4.1)**
Free Cash Flow	*US$m*	*(136.5)*	*14.4*	*93.1*	*(146.4)*	*367.2*
FINANCING CASHFLOW						
Share issues/(buy-backs)	US$m	183.6	-	152.2	245.0	-
Debt proceeds	US$m	-	-	-	245.0	-
Debt repayments	US$m	(2.0)	(29.9)	(20.0)	(21.3)	(21.3)
Distributions to non-controlling interests	US$m	15.0	17.0	(44.5)	(60.7)	(65.2)
Dividends	US$m	-	-	(29.1)	(17.3)	(35.7)
Other	US$m	(10.8)	(0.4)	(7.6)	(12.3)	-
Financing cash flow	**US$m**	**185.8**	**(13.3)**	**51.0**	**378.4**	**(122.2)**
Change in cash	*US$m*	*49.3*	*1.1*	*144.2*	*231.9*	*245.1*

BALANCE SHEET

Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e
ASSETS						
Cash & short term investments	US$m	49.0	49.8	194.0	425.9	671.0
Accounts receivable	US$m	43.7	97.2	51.2	65.8	71.2
Property, plant & equipment	US$m	340.1	628.5	754.7	1,180.5	1,140.8
Mine development expenditure	US$m	-	-	-	-	-
Exploration & evaluation	US$m	-	-	0.5	0.9	1.3
Other	US$m	99.2	122.0	122.0	122.0	122.0
Total assets	US$m	**531.9**	**897.5**	**1,122.3**	**1,795.2**	**2,006.3**
LIABILITIES						
Accounts payable	US$m	42.2	52.5	80.8	77.3	81.1
Income tax payable	US$m	0.3	0.7	0.2	3.4	5.9
Borrowings	US$m	4.2	65.0	45.0	268.7	247.3
Other	US$m	30.4	57.2	58.0	58.0	58.0
Total liabilities	US$m	**77.2**	**175.4**	**183.9**	**407.3**	**392.3**
SHAREHOLDER'S EQUITY						
Share capital	US$m	275.9	315.5	467.7	712.7	712.7
Reserves	US$m	(0.6)	19.2	19.2	19.2	19.2
Retained earnings	US$m	36.3	92.8	157.4	358.0	578.8
Total equity to NIC holders	**US$m**	**311.6**	**427.5**	**644.3**	**1,089.9**	**1,310.7**
Non-controlling interest	US$m	143.2	294.7	294.0	298.0	303.3
Total equity	**US$m**	**454.8**	**722.1**	**938.4**	**1,387.8**	**1,614.0**
Weighted average shares	m	1,324.4	1,631.2	1,761.6	2,303.1	2,478.1

CAPITAL STRUCTURE

Shares on issue	m		2,128.1
Total shares on issue	**m**	(add 0.0m escrow and placement shares)	**2,128.1**
Share price	**A$/sh**		**1.085**
Market capitalisation	A$m		2,309.0
Net cash	A$m		66.5
Enterprise value (undiluted)	**A$m**		**2,242.5**
Options outstanding (m)	m		0.0
Options (in the money)	m		0.0
Issued shares (diluted for options)	m		2,128.1
Market capitalisation (diluted)	A$m		2,309.0
Net cash + options	A$m		66.5
Enterprise value (diluted)	**A$m**		**2,242.5**

MAJOR SHAREHOLDERS

Shareholder	%	m
Shanghai Decent (SDI)	18.6%	395.5
Tanito Group (PT Karunia)	16.1%	343.2
BlackRock Investment Management	6.8%	144.0
Shanghai Wanlu	5.7%	121.3
Regal FM	4.5%	96.5

FINANCIAL RATIOS

Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e
VALUATION						
Attributable NPAT	US$m	65.5	56.5	93.8	217.9	256.5
Attributable NPAT	A$m	91.6	82.5	137.3	311.3	356.3
Reported EPS	Ac/sh	6.9	5.1	7.8	13.5	14.4
Adjusted EPS	Ac/sh	0.9	4.4	7.8	13.5	14.4
EPS growth	%	nm	46%	13%	73%	6%
PER [1]	x	15.7x	10.7x	13.9x	8.0x	7.5x
DPS	Ac/sh	-	-	2.0	1.0	2.0
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	2%	1%	2%
FCF/share [1]	Ac/sh	(14.4)	2.6	7.7	(9.1)	20.6
FCF yield [1]	%	-13%	2%	7%	-8%	19%
P/FCFPS [1]	x	-7.5x	42.0x	14.0x	-11.9x	5.3x
EV/EBITDA [1]	x	80.5x	16.9x	8.7x	4.7x	4.2x
EBITDA margin	%	31%	41%	37%	53%	54%
EBIT margin	%	21%	34%	30%	47%	48%
Return on assets [1]	%	23%	26%	16%	19%	17%
Return on equity [1]	%	37%	49%	30%	33%	27%
LIQUIDITY & LEVERAGE						
Net debt (cash)	$m	(45)	15	(149)	(157)	(424)
ND / E	%	-14%	4%	-23%	-14%	-32%
ND / (ND + E)	%	-17%	3%	-30%	-17%	-48%
EBITDA / Interest	x	nm	46.1x	51.5x	25.1x	33.7x

ATTRIBUTABLE DATA - NICKEL MINES LTD

Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e
Revenues	US$m	52.0	95.7	379.9	553.7	589.5
EBITDA	US$m	13.5	35.6	136.3	275.3	305.9
NPAT	US$m	65.5	56.5	93.8	217.9	256.5
Net distributable cash flow	US$m	44.4	1.0	129.7	208.7	220.6
EV/EBITDA	x	118.8	43.1	11.2	5.7	5.3
PER	x	15.7	21.4	13.9	8.0	7.5
P/FCF	x	nm	nm	nm	7.7	7.5

ORE RESERVE AND MINERAL RESOURCE

Hengjaya Nickel Mine (HM)	Mdmt	% Ni	t Ni
Mineral Resources			
Measured	0.700	1.80%	12,600
Indicated	15.000	1.90%	285,000
Inferred	22.000	1.80%	396,000
Total	**38.000**	**1.80%**	**678,000**

ASSUMPTIONS - Prices

Year ending 31 Dec. (from 2020) avg	Unit	2019a	2019a*	2020e	2021e	2022e
Nickel	US$/lb	$5.60	$7.02	$6.14	$7.45	$7.95
Nickel	US$/t	$12,343	$15,483	$13,532	$16,424	$17,527
Currency						
AUD:USD		0.72	0.68	0.68	0.70	0.72

ASSUMPTIONS - Production & costs

Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e
Hengjaya Mine						
Ore mined	wmt	484,268	428,382	728,892	1,560,000	1,560,000
Ore grade	% Ni	2.0%	1.9%	1.8%	1.8%	1.8%
Nickel in ore	t Ni	5,977	8,178	13,231	28,080	28,080
Nickel in ore (attributable)	t Ni	4,782	6,542	10,585	17,199	14,742
RKEF (IMIP)						
NPI production	t	42,106	152,408	294,984	304,615	304,615
Contained nickel	t Ni	5,788	20,988	42,757	42,646	40,362
Contained nickel (attributable)	t Ni	3,339	11,742	29,926	34,117	32,289
Costs						
Cash costs	US$/t Ni	$7,710	$7,689	$7,279	$7,521	$7,760
All-in-Costs (AIC)	US$/t Ni	$8,125	$7,804	$7,391	$7,636	$7,885

VALUATION

Ordinary shares (m)						**2,128.1**
Options in the money (m)						-
Total shares diluted (m)						**2,128.1**
Valuation	**Now**		**+12 months**		**+24 mths**	
Sum-of-the-parts	**A$m**	**A$/sh**	**A$m**	**A$/sh**	**A$m**	**A$/sh**
IMIP RKEF (NPV12)	2,163.6	1.02	2,448.9	1.15	2,666.5	1.25
IWIP RKEF (NPV12)	709.0	0.33	794.0	0.37	927.9	0.44
Hengjaya Mine (NPV12)	44.8	0.02	50.8	0.02	70.9	0.03
Other exploration	10.0	0.00	10.0	0.00	10.0	0.00
Corporate overheads	(38.4)	(0.02)	(45.4)	(0.02)	(46.0)	(0.02)
Subtotal (EV)	2,888.9	1.36	3,258.3	1.53	3,629.4	1.71
Net cash (debt)	66.5	0.03	149.0	0.07	157.3	0.07
Total (undiluted)	**2,955.4**	**1.39**	**3,407.3**	**1.60**	**3,786.6**	**1.78**
Dilutive effect of options		-		-		-
Add cash from options	-	-	-	-	-	-
Total (diluted)	**2,955.4**	**1.39**	**3,407.3**	**1.60**	**3,786.6**	**1.78**

**Transitional 6 month period to Dec-19. Change of Financial Year end from June to December*

[1] *Metrics annualised for 6 month period to Dec-19*

SOURCE: BELL POTTER SECURITIES ESTIMATES

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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