

Nickel Mines

NIC-ASX

 Rating
Market Perform

 Price: Jan-24
A\$0.68

 Target ↓
A\$1.10

 Total Rtn
62%

Strong Production Met With Higher Costs

Bottom Line: NIC continued its strong momentum at the RKEF lines as throughput at Hengjaya and Ranger were both above our expectations. Higher production, however, was met with higher costs. Expansion works at the Hengjaya mine are ongoing. We are maintaining our Market Perform rating at this time, but are lowering our target price to A\$1.10 (from A\$1.40) on the back of higher cost assumptions at the RKEF lines.

Key Points

Strong Hengjaya RKEF Production. Production of 40.9kt NPI was above our forecasts for 38.7kt. Grades of 13.6% were a bit below our estimates for 14% though, overall, nickel metal production of 5.6kt was above our forecast of 5.4kt on higher throughput.

Ranger RKEF Production Also Ahead. Production of 39.1kt NPI was solidly above our forecasts for 34.2kt. Grades of 13.8% were relatively in line with our estimates for 14%. Overall, nickel metal production of 5.4kt was above our forecast for 4.8kt on higher throughput, similar to Hengjaya RKEF.

Costs Elevated. At the Hengjaya RKEF, cash costs were elevated compared to our estimates, coming in at \$7,778/t versus our \$7,578/t, and \$7,523/t in the prior quarter. Ranger RKEF was a similar story, with cash costs of \$7,886/t also above our forecasts for \$7,578/t, and \$7,552/t in the prior quarter. NIC indicated cost increases were primarily attributable to higher electricity consumption as different ore mixes were trialed to enhance recoveries, as well as some additional year-end expenses.

Hengjaya Mine Expansion Ongoing. Phase 1 of the haul road, between the jetty and Central 21, is complete and NIC noted clearing of the pit area is planned for the current quarter. Phase 2 will join the Central Pit to Bete Bete for ore haulage operations. The road will permit larger trucks and minimize traffic interactions. Works on the jetty have allowed for the operation of 6.5kt barges. An updated resource is planned for the March 2020 quarter.

Balance Sheet Further Improving. NIC reported that cash, receivables and inventory assets rose to \$190.6M, up 23.2% from \$154.7M in the prior quarter. The bulk of the increase was driven by inventory to manage supply and grade flexibility. Final portions of the working capital loans were repaid at Hengjaya and Ranger.

Key Changes

Target	Estimates	1H / 20E	2020E	2021E
A\$1.10↓	Revenue (mm)	271	603	696
A\$1.40	Previous	284	618	694
	EPS	0.03	0.08	
	Previous	0.04	0.09	
	CFPS	0.04	0.13	
	Previous	0.07	0.16	

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Metals & Mining - International

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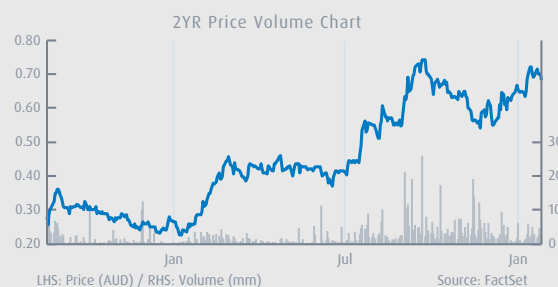
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Company Data		in AUD	
Dividend	AUD0.00	Shares O/S (mm)	1,665.5
Yield	0.0%	Market Cap (mm)	A\$1,133
NAV	\$1.70	P/NAV	0.4x

BMO Estimates		in \$		
(FY- Jun .)	2019A	2020E	2021E	
Revenue (mm)	65	603↓	696↑	
EPS	0.01	0.08↓	0.14	
CFPS	0.00	0.13↓	0.20	
EBITDA (mm)	20	247↓	324↑	
NPI Prod (Kt)	42	303	313	

Consensus Estimates		2019A	2020E	2021E
EPS			0.09	0.17

Valuation		2019A	2020E	2021E
P/E		NM	8.0x	4.9x
P/CFPS		NM	5.3x	3.5x
EV/EBITDA		29.7x	3.3x	1.3x

Semi-Annual EPS		H1	H2
2019A		(0.00)	0.01
2020E		0.03	0.06
2021E		0.06	0.08

Our Thesis

Nickel Mines provides exposure to nickel commodity prices but at a lower operating risk as compared with conventional nickel mining companies through its investments in rotary kiln electric furnace (RKEF) lines to produce nickel pig iron in Indonesia.

Nickel Mines - Block Summary Model

Income Statement	2019A	2020E	2021E
Total Revenues	65	603	696
Cost of Sales	43	351	367
DD&A	7	21	32
SG&A	4	4	4
Interest Expense	0	5	5
Adjusted Net Income	7	141	231
Adjusted EPS	0	0	0
EBITDA	20	247	324
Cash Flow Statement	2019A	2020E	2021E
Operating Cash Flow	4	215	328
Investing Cash Flow	(141)	(259)	(2)
Financing Cash Flow	186	29	(81)
Change in Cash	48	(14)	245
Beg Cash Balance	1	49	35
Ending Cash Balance	49	35	280
Free Cash Flow	(135)	(43)	325
Balance Sheet	2019A	2020E	2021E
Cash & Equivalents	49	35	280
Total Assets	532	756	971
Long-Term Debt	0	49	28
ND/EBITDA	(2.2)x	0.1x	(0.7)x
Total Liabilities	77	104	88
Total Shareholders' Equity	455	652	884
Net Debt	(45)	30	(231)
Production	2019A	2020E	2021E
NPI Production (Kt)	42	307	310
Nickel Price (US\$/lb)	5.60	6.92	6.97

Source: BMO Capital Markets, Company Reports

New Scenarios

Valuation

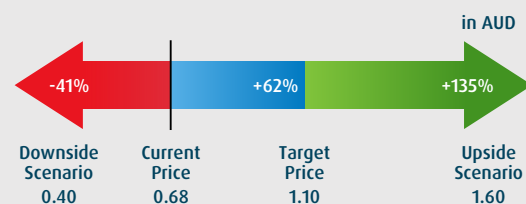
We value Nickel Mines shares using a 75% weighting of a 0.7x multiple to our NAV and a 25% weighting of a 4.0x EV/EBITDA multiple to our NTM EBITDA.

Upside Scenario AUD1.60

Our upside scenario share price is based on a 50% increase to our NAV and EV/EBITDA multiples.

Downside Scenario AUD0.40

Our downside scenario share price is based on a 50% decrease to our NAV and EV/EBITDA multiples.



Key Catalysts

Ramp-up of the RKEF lines to full production run rate, cost savings through road haulage, selling limonite ore to nearby HPAL, higher equity participation in existing RKEF, equity participation in new RKEF lines.

Company Description

Nickel Mines mines nickel laterite ore and produces nickel pig iron through RKEF lines in Indonesia.



NIC-ASX Research



Glossary



Company Models

Exhibit 1: NIC Block Model (BMO Metal Price Forecasts)

NICKEL MINES		NIC	
Recommendation	Mkt	Analyst	RC/JP
As at	27-Jan-20	BMO Capital Markets	
Year End	June		
Share Price	\$0.68 A\$/share	\$0.46 US\$/share	
Target Price	\$1.10 A\$/share	\$0.74 US\$/share	
Net Present Value	10% \$1.70 A\$/share	\$1.25 US\$/share	
	8% \$1.99 A\$/share	\$1.47 US\$/share	
Market Cap	1,037.3 A\$M	701.0 US\$M	
Ordinary Shares	1,525.5 M		
Options & Warrants	0.0 M		

PRICE ASSUMPTIONS - BMO PRICES						
(June Year End)		2018A	2019A	2020E	2021E	2022E
Exchange Rate	IDR:USD	13,598	14,447	14,071	14,088	14,039
Nickel	US\$/lb	5.65	5.60	6.92	6.97	7.20
Oil	US\$/bbl	58.25	60.73	57.36	57.99	61.24
Gold	US\$/oz	1,297	1,263	1,491	1,475	1,413
Silver	US\$/oz	16.72	15.00	17.55	18.30	17.26
Copper	US\$/lb	3.06	2.79	2.74	2.90	2.74
Lead	US\$/lb	1.10	0.90	0.89	0.84	0.86

FINANCIAL SUMMARY						
(June Year End)		2018A	2019A	2020E	2021E	2022E
Earnings (Adj.)	(US\$M)	(3.3)	65.5	140.8	231.4	244.1
EPS	(US\$/share)	(0.01)	0.01	0.08	0.14	0.15
P/E	(x)	na	na	5.4x	3.3x	3.1x
EBITDA	(US\$M)	-1.7	78.5	246.9	324.5	344.2
EBITDA/share	(US\$/share)	(0.01)	0.08	0.15	0.19	0.21
EV/EBITDA	(x)	-187.6x	14.3x	5.2x	3.2x	2.2x
Cash Flow	(US\$M)	-8.2	4.1	215.4	327.7	350.4
CFPS	(US\$/share)	(0.03)	0.00	0.13	0.20	0.21
P/CF	(x)	na	na	3.5x	2.3x	2.2x
Free Cash Flow	(US\$M)	-58.9	-135.4	-43.4	325.5	348.2
FCFPS	(US\$/share)	(0.23)	(0.14)	(0.03)	0.20	0.21
FCF Yield	(%)	-49.7%	-29.9%	-5.7%	42.5%	45.5%
Dividend	(US\$/share)	0.00	0.00	0.00	0.00	0.00
Ordinary Shares	(M)	257.8	985.7	1,647.9	1,665.5	1,665.5

PROFIT AND LOSS STATEMENT - US\$M						
(June Year End)		2018A	2019A	2020E	2021E	2022E
Sales Revenue		13.6	64.9	602.5	695.7	720.0
Other Revenue		0.0	0.0	0.0	0.0	0.0
Operating Costs		(10.4)	(43.3)	(351.4)	(367.0)	(371.6)
Depreciation		(0.3)	(6.8)	(21.1)	(31.5)	(41.2)
Interest		(0.3)	(0.0)	(5.1)	(5.4)	(3.5)
Exploration		0.0	0.0	0.0	0.0	0.0
Corporate		(2.6)	(3.8)	(4.2)	(4.2)	(4.2)
Other Costs		(1.7)	2.9	0.9	1.5	5.5
Operating Profit Before Tax		(1.9)	13.8	221.6	289.0	305.0
Income Tax		(0.7)	(0.1)	2.3	1.8	0.6
Operating Profit After Tax		(2.5)	13.8	223.9	290.7	305.6
Minorities		(0.4)	(6.3)	(83.1)	(59.3)	(61.6)
Net Profit After Tax		(3.3)	65.5	140.8	231.4	244.1
Abnormals		0.4	(58.1)	0.0	0.0	0.0
Tax on Abnormals		0.0	0.0	0.0	0.0	0.0
Reported Profit		(3.3)	65.5	140.8	231.4	244.1

QUARTERLY SUMMARY			
	H1/20E	H2/20E	
ADJUSTED EPS	(US\$/sh)	0.03	0.06
CFPS	(US\$/sh)	0.04	0.09
FCFPS	(US\$/sh)	-0.05	0.02

FINANCIAL METRICS						
ROE	(%)	-4.4%	14.4%	21.6%	26.2%	21.6%
ROIC	(%)	-8.4%	29.7%	40.4%	43.0%	47.9%
Net Debt to Equity	(%)	-1.1%	-9.9%	4.6%	-26.1%	-45.6%
Net Debt/ EBITDA	(x)	0.5	(0.6)	0.1	(0.7)	(1.5)
Coverage Ratio	(x)	-6.0x	384.9x	43.5x	53.2x	86.5x

CASH FLOW ANALYSIS - US\$M						
(June Year End)		2018A	2019A	2020E	2021E	2022E
Cash Flows From Operating Activities						
Net Income		(2.9)	71.8	223.9	290.7	305.6
Non-Cash Items		(5.3)	(67.7)	26.0	37.0	44.7
Re-invested in Working Capital		0.0	0.0	(34.4)	0.0	0.0
Cash Flows From Investing Activities						
Property and Business Activities		0.0	0.0	0.0	0.0	0.0
Acq. of Property, Plant and Equip.		(0.7)	(19.5)	(17.4)	(2.2)	(2.2)
Other		(50.0)	(121.1)	(241.4)	0.0	0.0
Cash Flows From Financing Activities						
Proceeds From Borrowings		0.0	0.0	80.0	0.0	0.0
Repayment of Borrowings		(13.2)	(2.0)	(19.0)	(16.0)	(21.3)
Other		72.1	187.8	(31.5)	(64.7)	(65.1)
Net Free Cash Flow		(58.9)	(135.4)	(43.4)	325.5	348.2
Net Increase in Cash Held		1.0	47.1	(13.9)	244.7	261.7
Cash At Beginning of Year		0.0	0.8	49.0	35.1	279.8
Cash At End of Year		0.8	49.0	35.1	279.8	541.6

BALANCE SHEET ANALYSIS - US\$M						
(June Year End)		2018A	2019A	2020E	2021E	2022E
Current Assets						
Cash and Cash Equivalents		0.8	49.0	35.1	279.8	541.6
Other		1.7	59.2	59.2	59.2	59.2
Non-Current Assets						
Investments		0.0	0.0	0.0	0.0	0.0
Fixed Assets		26.6	340.1	627.7	598.4	559.4
Other		52.8	191.8	128.0	372.7	634.5
Current Liabilities						
Borrowings		0.0	4.2	16.0	21.3	21.3
Creditors		2.9	42.2	42.2	42.2	42.2
Other		1.1	0.8	0.8	0.8	0.8
Non-Current Liabilities						
Borrowings		0.0	0.0	49.0	27.7	6.3
Other		4.3	77.2	54.5	59.9	59.9
Shareholders Equity		75.1	454.8	652.2	883.6	1,127.7
Net Debt		(0.8)	(44.8)	29.9	(230.8)	(513.9)

PROJECT	8%		10%		NICKEL PRODUCTION (kt)				
	NPV US\$M	NPV US\$M	2018A	2019A	2020E	2021E	2022E		
HENGJAYA MINE (INDONESIA)	19.5	16.2	7.9	7.2	13.6	21.8	19.9		
HENGJAYA RKEF (INDONESIA)	1,297.9	1,113.8	0.0	3.3	14.2	17.3	17.3		
RANGER RKEF (INDONESIA)	1,302.1	1,117.3	0.0	0.1	13.6	17.3	17.3		
OTHER	(232.4)	(230.3)							
			7.9	10.5	41.4	56.4	54.5		
Hedge Book	0.0	0.0							
Corporate	(35.4)	(30.3)							
Net Cash	44.8	44.8							
Investments	0.0	0.0							
Options & Warrants	56.6	56.6							
Total NPV	2,453.2	2,088.3							
Per Share	\$1.47	\$1.25	IRR = 21.4%		P/NPV 0.4x				

NICKEL MINES						
		2018A	2019A	2020E	2021E	2022E
Cash Operating Costs	US\$/lb	0.60	1.55	2.54	2.34	2.43
All-In-Sustaining-Costs	US\$/lb	0.62	1.58	2.56	2.36	2.45

RESERVES AND RESOURCES					
	P&P	Ni %	M&I	Ni %	
(Exclusive Mlb)					
Hengjaya	0	0.00%	3,439	1.30%	

Source: BMO Capital Markets

Exhibit 2: NIC Block Model (Spot Metal Prices)

NICKEL MINES		NIC	
Recommendation	Mkt	Analyst	RC/JP
As at	27-Jan-20	BMO Capital Markets	
Year End	June		
Share Price	\$0.68 A\$/share	\$0.46 US\$/share	
Target Price	\$1.10 A\$/share	\$0.74 US\$/share	
Net Present Value	10% \$1.24 A\$/share	\$0.84 US\$/share	
	8% \$1.46 A\$/share	\$0.98 US\$/share	
Market Cap	1,037.3 A\$M	701.0 US\$M	
Ordinary Shares	1,525.5 M		
Options & Warrants	0.0 M		

PRICE ASSUMPTIONS - SPOT PRICES						
(June Year End)						
		2018A	2019A	2020E	2021E	2022E
Exchange Rate	IDR:USD	13,598	14,447	13,849	13,605	13,605
Nickel	US\$/lb	5.65	5.60	6.47	5.89	5.89
Oil	US\$/bbl	58.25	60.73	55.47	54.21	54.21
Gold	US\$/oz	1,297	1,263	1,531	1,583	1,583
Silver	US\$/oz	16.72	15.00	17.62	18.10	18.10
Copper	US\$/lb	3.06	2.79	2.68	2.71	2.71
Lead	US\$/lb	1.10	0.90	0.91	0.89	0.89

FINANCIAL SUMMARY						
(June Year End)						
		2018A	2019A	2020E	2021E	2022E
Earnings (Adj.)	(US\$M)	(3.3)	65.5	113.3	152.5	149.8
EPS	(US\$/share)	(0.01)	0.01	0.07	0.09	0.09
P/E	(x)	na	na	6.8x	5.0x	5.1x
EBITDA	(US\$M)	-1.7	78.5	206.3	225.1	226.3
EBITDA/share	(US\$/share)	(0.01)	0.08	0.13	0.14	0.14
EV/EBITDA	(x)	-187.6x	14.3x	6.4x	5.1x	4.2x
Cash Flow	(US\$M)	-8.2	4.1	174.8	228.3	231.6
CFPS	(US\$/share)	(0.03)	0.00	0.11	0.14	0.14
P/CF	(x)	na	na	4.3x	3.4x	3.3x
Free Cash Flow	(US\$M)	-58.9	-135.4	-84.0	226.0	229.4
FCFPS	(US\$/share)	(0.23)	(0.14)	(0.05)	0.14	0.14
FCF Yield	(%)	-49.7%	-29.9%	-11.1%	29.5%	30.0%
Dividend	(US\$/share)	0.00	0.00	0.00	0.00	0.00
Ordinary Shares	(M)	257.8	985.7	1,647.9	1,665.5	1,665.5

PROFIT AND LOSS STATEMENT - US\$M						
(June Year End)						
		2018A	2019A	2020E	2021E	2022E
Sales Revenue		13.6	64.9	558.7	587.6	589.1
Other Revenue		0.0	0.0	0.0	0.0	0.0
Operating Costs		(10.4)	(43.3)	(348.2)	(358.3)	(358.6)
Depreciation		(0.3)	(6.8)	(21.1)	(31.5)	(41.2)
Interest		(0.3)	(0.0)	(5.1)	(5.4)	(3.5)
Exploration		0.0	0.0	0.0	0.0	0.0
Corporate		(2.6)	(3.8)	(4.2)	(4.2)	(4.2)
Other Costs		(1.7)	2.9	0.9	0.7	3.4
Operating Profit Before Tax		(1.9)	13.8	181.0	188.9	185.0
Income Tax		(0.7)	(0.1)	2.7	3.4	2.6
Operating Profit After Tax		(2.5)	13.8	183.7	192.3	187.6
Minorities		(0.4)	(6.3)	(70.3)	(39.7)	(37.8)
Net Profit After Tax		(3.3)	65.5	113.3	152.5	149.8
Abnormals		0.4	(58.1)	0.0	0.0	0.0
Tax on Abnormals		0.0	0.0	0.0	0.0	0.0
Reported Profit		(3.3)	65.5	113.3	152.5	149.8

QUARTERLY SUMMARY			
	H1/20E	H2/20E	
ADJUSTED EPS	(US\$/sh)	0.03	0.04
CFPS	(US\$/sh)	0.04	0.07
FCFPS	(US\$/sh)	-0.05	-0.01

FINANCIAL METRICS						
ROE	(%)	-4.4%	14.4%	18.2%	19.7%	16.2%
ROIC	(%)	-8.4%	29.7%	33.0%	28.2%	29.2%
Net Debt to Equity	(%)	-1.1%	-9.9%	9.7%	-15.5%	-33.4%
Net Debt/ EBITDA	(x)	0.5	(0.6)	0.3	(0.5)	(1.4)
Coverage Ratio	(x)	-6.0x	384.9x	35.5x	34.8x	52.5x

CASH FLOW ANALYSIS - US\$M						
(June Year End)						
		2018A	2019A	2020E	2021E	2022E
Cash Flows From Operating Activities						
Net Income		(2.9)	71.8	183.7	192.3	187.6
Non-Cash Items		(5.3)	(67.7)	25.5	36.0	44.0
Re-invested in Working Capital		0.0	0.0	(34.4)	0.0	0.0
Cash Flows From Investing Activities						
Property and Business Activities		0.0	0.0	0.0	0.0	0.0
Acq. of Property, Plant and Equip.		(0.7)	(19.5)	(17.4)	(2.2)	(2.2)
Other		(50.0)	(121.1)	(241.4)	0.0	0.0
Cash Flows From Financing Activities						
Proceeds From Borrowings		0.0	0.0	80.0	0.0	0.0
Repayment of Borrowings		(13.2)	(2.0)	(19.0)	(16.0)	(21.3)
Other		72.1	187.8	(21.5)	(45.2)	(41.3)
Net Free Cash Flow		(58.9)	(135.4)	(84.0)	226.0	229.4
Net Increase in Cash Held		1.0	47.1	(44.5)	164.9	166.8
Cash At Beginning of Year		0.0	0.8	49.0	4.5	169.3
Cash At End of Year		0.8	49.0	4.5	169.3	336.1

BALANCE SHEET ANALYSIS - US\$M						
(June Year End)						
		2018A	2019A	2020E	2021E	2022E
Current Assets						
Cash and Cash Equivalents		0.8	49.0	4.5	169.3	336.1
Other		1.7	59.2	59.2	59.2	59.2
Non-Current Assets						
Investments		0.0	0.0	0.0	0.0	0.0
Fixed Assets		26.6	340.1	627.7	598.4	559.4
Other		52.8	191.8	97.4	262.2	429.0
Current Liabilities						
Borrowings		0.0	4.2	16.0	21.3	21.3
Creditors		2.9	42.2	42.2	42.2	42.2
Other		1.1	0.8	0.8	0.8	0.8
Non-Current Liabilities						
Borrowings		0.0	0.0	49.0	27.7	6.3
Other		4.3	77.2	54.1	58.5	57.8
Shareholders Equity		75.1	454.8	622.0	774.5	924.3
Net Debt		(0.8)	(44.8)	60.5	(120.3)	(308.5)

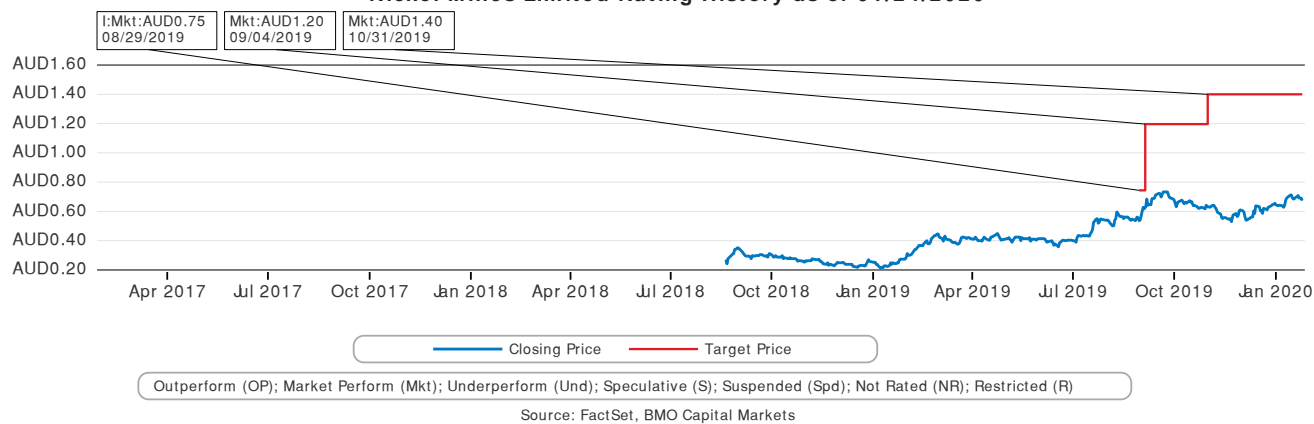
PROJECT	8%		10%		NICKEL PRODUCTION (kt)				
	NPV US\$M	NPV US\$M	2018A	2019A	2020E	2021E	2022E		
HENGJAYA MINE (INDONESIA)	(16.7)	(15.2)	7.9	7.2	13.6	21.8	19.9		
HENGJAYA RKEF (INDONESIA)	910.5	782.6	0.0	3.3	14.2	17.3	17.3		
RANGER RKEF (INDONESIA)	914.7	786.0	0.0	0.1	13.6	17.3	17.3		
OTHER	(232.4)	(230.3)							
			7.9	10.5	41.4	56.4	54.5		
Hedge Book	0.0	0.0							
Corporate	(35.4)	(30.3)							
Net Cash	44.8	44.8							
Investments	0.0	0.0							
Options & Warrants	53.9	53.9							
Total NPV	1,639.6	1,391.5							
Per Share	\$0.98	\$0.84							
			IRR = 13.2%		P/NPV 0.5x				

NICKEL MINES						
		2018A	2019A	2020E	2021E	2022E
Cash Operating Costs	US\$/lb	0.60	1.55	2.51	2.29	2.34
All-In-Sustaining-Costs	US\$/lb	0.62	1.58	2.54	2.31	2.36

RESERVES AND RESOURCES						
		P&P	Ni %	M&I	Ni %	
(Exclusive Mlb)						
Hengjaya		0	0.00%	3,439	1.30%	

Source: BMO Capital Markets

Nickel Mines Limited Rating History as of 01/24/2020



IMPORTANT DISCLOSURES

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We, Rene Cartier and Jackie Przybylowski, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities or issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 16: A research analyst has extensively viewed the material operations of Nickel Mines Limited.

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Methodology: The target price is derived using a blend of NAV and EV/EBITDA multiples.

Risks: Risks to our target price include a material difference of actual commodity prices or FX compared with our price assumptions, future revisions to tax, mining codes, export policy, or further mandated divestment of ownership from foreign owners in Indonesia.

Distribution of Ratings (January 27, 2020)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	44.2 %	26.4 %	52.1 %	46.9 %	54.7 %	57.7%
Hold	Market Perform	51.1 %	19.9 %	45.4 %	49.5 %	44.2 %	37.5%
Sell	Underperform	4.7 %	12.0 %	2.5 %	3.6 %	1.1 %	4.8%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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~ As of April 1, 2019.

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(S) = Speculative investment;

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