BELL POTTER

29 October 2020

Analyst
David Coates 612 8224 2887

Authorisation
Stuart Howe 613 9235 1856

Nickel Mines Ltd (NIC)

Preferred nickel exposure

Recommendation
Buy (unchanged)
Price
$0.965
Target (12 months)
$1.56 (previously $1.52)

GICS Sector

Materials

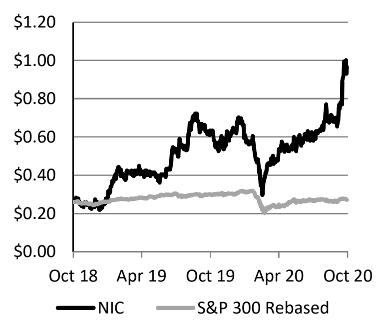
Expected Return	
Capital growth	61.7%
Dividend yield	2.1%
Total expected return	63.8%

Company Data & Ratios	
Enterprise value	$1,985
Market cap	$2,054m
Issued capital	2,128m
Free float	76%
Avg. daily val. (52wk)	$4.4m
12 month price range	$0.29-$1.035

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.68	0.59	0.62
Absolute (%)	41.9	63.6	55.9
Rel market (%)	38.8	63.9	65.1

Absolute Price



SOURCE: IRESS

September 2020 quarterly report

NIC has released its September 2020 quarter report, delivering record low costs and another strong production performance. It produced 69,830t of NPI grading 15.3% Ni for 10,700t contained Ni, with 8,560t attributable to NIC (vs BPe 76,154t of NPI grading 14.0% Ni for 10,662t contained Ni, 8,529t attributable). Cash costs were US$7,201/t (vs BPe US$7,502/t). Ni in NPI production was up 6% qoq and marginally beat our forecast on higher Ni in NPI grades. This, together with lower power costs, contributed to the record low cost performance and maintains NIC's strong track record of delivery. EBITDA of US$49.1m from NPI production was reported (100%-basis, vs June quarter US$24.0m). This was below our internal estimate of ~$65m as a result of Ni in NPI payability being lower than forecast and was the main negative flowing through to our CY20 earnings estimates. NIC also declared and paid its maiden dividend, of A1cps (unfranked), for a payout of US$15.4m, and made a further voluntary debt repayment of US$10m, reducing gross debt to US$45m. Cash on hand was US$93.8m.

Top pick, preferred nickel exposure

The September quarter performance continues to reinforce NIC as our preferred nickel exposure. Sustainable production rates above nameplate and the steady, downward trend in operating costs at the Indonesia Morowali Industrial Park (IMIP) are, in our view, not only a positive for the current operations at the but also validate and de-risk the planned acquisition of a 70% interest in 4 next-generation rotary-kiln-electric-furnace (RKEF) lines at the Indonesia Weda Bay Industrial Park (IWIP). Combined with forecast growth in earnings, free cash flows and valuation upside, NIC remains one of our top picks in the sector.

Investment thesis – Buy, TP$1.56/sh (from Buy, $1.52/sh)

Our updated assumptions result in an 11% cut to our forecast CY20 earnings, driven primarily by the lower nickel payability for the September quarter. Lower costs and higher production result in our CY21 and CY22 earnings increasing 7% and 9% respectively. Our NPV-based, sum-of-the-parts valuation lifts by 3%, to $1.56/sh.

Earnings Forecast

Year ending 31 December	2019a*	2020e	2021e	2022e
Sales (US$m)	236	512	658	672
EBITDA (US$m)	97	189	349	366
Attributable NPAT (reported) (US$m)	57	94	246	270
Attributable NPAT (reported) (A$m)	83	137	352	376
EPS (adjusted) (A¢ps)	4.4	7.8	16.5	17.7
EPS growth (%)	46%	13%	112%	7%
PER (x) 1	9.5	12.4	5.8	5.5
FCF Yield (%) 1	3%	10%	23%	25%
EV/EBITDA (x) 1	14.4	7.4	4.0	3.8
Dividend (A¢ps)	-	2	2	2
Yield (%)	0%	2%	2%	2%
Franking (%)	0%	0%	0%	0%
ROE (%) 1	49%	30%	41%	34%

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

Preferred nickel exposure

September 2020 quarterly report

NIC has released its September 2020 quarter report, delivering record low costs and another strong production performance from its Rotary Kiln Electric Furnace (RKEF) lines at the Hengjaya and Ranger Nickel Projects at the IMIP in Indonesia. During the September quarter they produced 69,830t of NPI grading 15.3% Ni for 10,700t contained Ni, with 8,560t attributable to NIC (vs BPe 76,154t of NPI grading 14.0% Ni for 10,662t contained Ni, 8,529t attributable). Cash costs were US$7,201/t (vs BPe US$7,502/t). Ni in NPI production was up 6% qoq and marginally beat our forecast on higher Ni in NPI grades. This, together with lower power costs, contributed to the record low cost performance and maintains NIC's strong track record of delivery.

The IMIP continues to enforce strict operating and site access protocols to minimise the risk of COVID-19 infection and transmission. No COVID-19 cases have been reported to date and operations remain undisrupted.

EBITDA of US$49.1m from NPI production was reported for the September quarter (100%-basis, vs June quarter US$24.0m) and was also below our internal estimate of ~US$65m as a result of Ni in NPI payability being lower than forecast. This is the main negative flowing through our CY20 earnings forecasts.

Cash on hand increased from US$91.2m to US$93.8m. This was lower than we expected as a result of the lower Ni payability and a step-change in working capital balances following NIC's ownership increase from 60% to 80%, effective 1 July 2020. Receivables increased materially (by US$41.5m, from US$34.6m to US$76.1m). We expect this cash to flow through in the coming quarter and for working capital balances to stabilise, reflecting the new ownership levels. We point out NIC's payment terms are 60 days. During the quarter NIC also declared and paid its maiden dividend, of A1cps (unfranked), equating to a payout of US$15.4m and made a further voluntary debt repayment of US$10m, reducing its gross debt to US$45m.

Production and sales from the Hengjaya Mine (NIC 80%) improved materially after a poor June quarter but again missed our forecasts by some margin, at 129kt (BPe 200kt, but up 139% qoq). Dry weather and the completion of the mine expansion enabled NIC to reach its targeted ore mining rate of 150kt per month in the month of October.

Key production metrics are summarised below:

Table 1 - NIC quarterly production summary

	Sep-19 Actual	Dec-19 Actual	Mar-20 Actual	Jun-20 Actual	Sep-20 Actual	Sep-20 BP est.	Variance qoq %	Variance vs BPe %
Hengjaya Mine								
Ore sales (t)	231,487	196,895	155,599	54,029	129,264	200,000	139%	-35%
grade (% Ni)	1.84%	1.99%	1.83%	1.80%	1.85%	1.80%	2.8%	2.8%
Contained nickel (t Ni)	4,259	3,918	2,847	973	2,391	3,600	146%	-34%
Mine OPEX (US$/t)	$24.85	$26.27	$29.70	$44.73	$40.68	$26.37	-9%	54%
Avg price received (US$/t)	$27.72	$37.59	$24.32	$23.79	$31.39	$27.41	32%	15%
RKEF NPI production								
NPI production (t)	72,393	80,015	79,398	69,602	69,830	76,154	0%	-8%
NPI grade (% Ni)	13.8%	13.7%	14.2%	14.5%	15.3%	14.0%	6%	9%
Contained nickel (t)	10,020	10,968	11,291	10,104	10,700	10,662	6%	0%
Contained nickel (t, attributable)	5,160	6,582	6,775	6,062	8,560	8,529	41%	0%
Costs								
Cash costs (US$/t Ni)	$7,536	$7,831	$7,247	$7,367	$7,201	$7,502	-2%	-4%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Other key takeaways from the result include:

- NIC reported a weighted average contract price for the quarter of US$11,560/t Ni, representing **payability of ~81%** of our calculated average LME price for the September quarter of US$14,220/t, lower than our estimate of 92%. Our observation has been that NPI prices tend to lag rapid movements in the nickel price and we expect NIC's realised price to increase;
- RKEF operations continue to perform at levels we believe are **representative of steady state production** (+10kt per quarter) and ahead of design nameplate (~8.2kt per quarter); and
- The **Hengjaya Mine expansion reached a key milestone** post quarter-end, with ore production in the month of October having reached 150kt on a month-to-date basis, exceeding NIC's 150ktpm target production rate.

Changes to our forecasts

Beyond updating our forecasts for the September 2020 quarter production and cost report, we have made the following changes to our modelled assumptions:

- Lowered our forecast unit operating costs, based up on sustainable higher grades of Ni in NPI and the steady declining trend observed since the commencement of production. The higher Ni in NPI grades also flow through to higher forecast production rates in CY21-22;
- Our CY20 revenue forecast drops as a result of the lower payability received (~81% of LME nickel price) in the September quarter, compared to our forecast of 92%; and
- Rolled our model forward.

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)	799,628	1,560,000	1,560,000	728,892	1,560,000	1,560,000	-9%	0%	0%
Nickel in ore (t)	14,440	28,080	28,080	13,231	28,080	28,080	-8%	0%	0%
RKEF NPI production (t)	301,308	304,615	304,615	294,984	304,615	304,615	-2%	0%	0%
Contained nickel (t)	42,718	41,123	38,077	42,757	42,646	40,362	0%	4%	6%
Contained nickel (t, attributable)	29,896	32,898	30,462	29,926	34,117	32,289	0%	4%	6%
Cash costs (US$/t Ni)	7,424	7,664	7,962	7,279	7,521	7,760	-2%	-2%	-3%
Earnings & valuation									
Revenue (consolidated, US$m)	530	631	634	512	658	672	-4%	4%	6%
Revenue (attributable, US$m)	396	532	531	380	554	561	-4%	4%	6%
EBITDA (attributable, US$m)	148	258	268	136	275	291	-8%	7%	8%
NPAT (reported, attributable, US$m)	105	230	249	94	246	270	-11%	7%	9%
EPS (reported) (Acps)	8.7	15.4	16.2	7.8	16.5	17.7	-11%	7%	9%
PER (x)	11.0	6.3	5.9	12.4	5.8	5.5	1.3	(0.4)	(0.5)
EPS growth (%)	26%	76%	5%	13%	112%	7%	-14%	36%	1%
DPS (Acps)	2	2	2	2	2	2	0%	0%	0%
Yield	2%	2%	2%	2%	2%	2%	0%	0%	0%
NPV (A$/sh)	1.52	1.73	1.84	1.56	1.78	1.90	3%	3%	3%
Price Target (A$/sh)	1.52			1.56			3%		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Our updated assumptions result in an 11% cut to our forecast CY20 earnings, driven primarily by the lower nickel payability for the September quarter. Lower costs and higher production result in our CY21 and CY22 earnings increasing 7% and 9% respectively. Our NPV-based, sum-of-the-parts valuation lifts by 3%, to $1.56/sh.

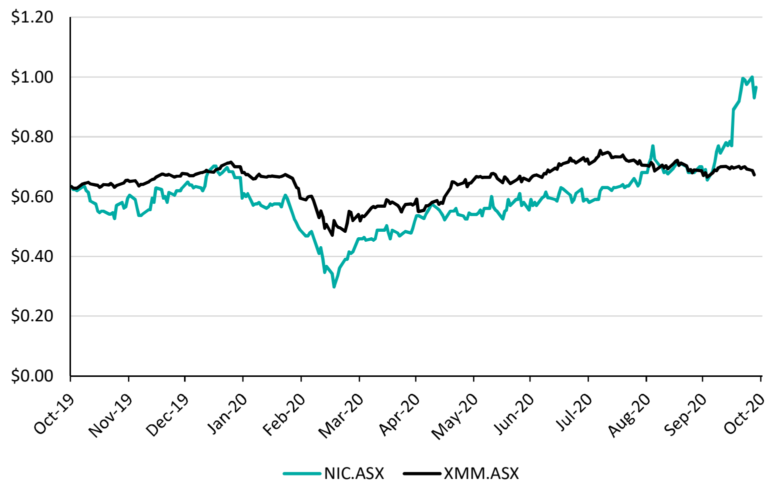
Upcoming catalysts

Upcoming catalysts for NIC include:

- The execution of a binding Definitive Agreement for the acquisition of a 70% interest in 4 next-generation rotary-kiln-electric-furnace (RKEF) lines within the Indonesia Weda Bay Industrial Park (IWIP). The transaction is also conditional on shareholder approval;
- 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;
- 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 1 - 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 a 60% 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. In June 2020, NIC exercised its option to increase its ownership of both Hengjaya and Ranger to 80%, for US$120m, becoming effective 1 July 2020.

The RKEF lines are located in an existing, fully integrated stainless steel production facility, the Indonesian Morowali Industrial Park (IMIP), in Central Sulawesi, Indonesia. First production from the Hengjaya Lines was achieved on 31 January 2019 and exceeded their nameplate production run-rate of 16ktpa nickel in NPI (100% basis) during the September quarter 2019. The Ranger Lines commenced production during the September quarter 2019 and exceeded nameplate in the December quarter 2019.

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 balance of the asset is owned by NIC's local Indonesian partner. 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$1.56/sh (from Buy, $1.52/sh)

Our updated assumptions result in an 11% cut to our forecast CY20 earnings, driven primarily by the lower nickel payability for the September quarter. Lower costs and higher production result in our CY21 and CY22 earnings increasing 7% and 9% respectively. Our NPV-based, sum-of-the-parts valuation lifts by 3%, to $1.56/sh.

Valuation: $1.56/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 $1.56/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 29 October 2020

Recommendation	Buy
Price	$0.965
Target (12 months)	$1.56

Table 3 - Financial summary

PROFIT AND LOSS

Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e
Revenue	US$m	64.9	236.1	511.7	658.5	671.9
Expense	US$m	(44.5)	(138.9)	(323.0)	(309.3)	(305.7)
EBITDA	**US$m**	**20.4**	**97.2**	**188.7**	**349.1**	**366.3**
Depreciation	US$m	(6.8)	(16.4)	(35.8)	(37.1)	(35.2)
EBIT	US$m	13.6	80.8	152.8	312.1	331.1
Net interest expense	US$m	0.2	(2.1)	(3.7)	2.2	9.5
Unrealised gains (Impairments)	US$m	57.3	7.4	-	-	-
Other	US$m	0.7	5.4	(11.3)	-	-
PBT	**US$m**	**71.9**	**91.5**	**137.9**	**314.3**	**340.5**
Tax expense	US$m	(0.1)	(0.2)	(0.2)	(3.4)	(2.6)
Consolidated profit (loss) for the year	US$m	71.8	91.3	137.6	310.9	337.9
Non-Controlling Interest	US$m	6.3	34.8	43.9	64.6	67.5
Attributable NPAT (reported)	**US$m**	**65.5**	**56.5**	**93.8**	**246.2**	**270.5**
NPAT (underlying)	US$m	8.2	49.1	93.8	246.2	270.5

CASH FLOW

Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e
OPERATING CASHFLOW						
Receipts	US$m	33.4	212.7	557.7	643.8	670.6
Payments	US$m	(28.4)	(169.9)	(294.7)	(312.7)	(306.6)
Tax	US$m	(1.2)	(4.7)	0.1	(0.2)	(3.4)
Net interest	US$m	0.2	0.1	(3.7)	2.2	9.5
Other	US$m	-	-	(3.7)	-	-
Operating cash flow	**US$m**	**4.1**	**38.2**	**255.7**	**333.0**	**370.1**
INVESTING CASHFLOW						
Property, plant and equipment	US$m	(19.5)	(29.6)	(132.0)	(2.9)	(2.9)
Mine development	US$m	-	-	-	-	-
Exploration & evaluation	US$m	-	-	(0.5)	(0.4)	(0.4)
Other	US$m	(121.1)	5.8	(10.0)	-	-
Investing cash flow	**US$m**	**(140.6)**	**(23.8)**	**(142.5)**	**(3.3)**	**(3.3)**
Free Cash Flow	*US$m*	*(136.5)*	*14.4*	*113.1*	*329.7*	*366.8*
FINANCING CASHFLOW						
Share issues/(buy-backs)	US$m	183.6	-	152.2	-	-
Debt proceeds	US$m	-	-	-	-	-
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$m	-	-	(29.1)	(29.8)	(30.6)
Other	US$m	(10.8)	(0.4)	(7.6)	-	-
Financing cash flow	**US$m**	**185.8**	**(13.3)**	**51.0**	**(111.8)**	**(117.1)**
Change in cash	*US$m*	*49.3*	*1.1*	*164.2*	*217.9*	*249.7*

BALANCE SHEET

Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e
ASSETS						
Cash & short term investments	US$m	49.0	49.8	214.0	431.8	681.5
Accounts receivable	US$m	43.7	97.2	51.2	65.8	67.2
Property, plant & equipment	US$m	340.1	628.5	734.7	700.5	668.2
Mine development expenditure	US$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$m**	**531.9**	**897.5**	**1,122.3**	**1,321.1**	**1,540.2**
LIABILITIES						
Accounts payable	US$m	42.2	52.5	80.8	77.3	76.4
Income tax payable	US$m	0.3	0.7	0.2	3.4	2.6
Borrowings	US$m	4.2	65.0	45.0	23.7	2.3
Other	US$m	30.4	57.2	58.0	58.0	58.0
Total liabilities	US$m	**77.2**	**175.4**	**183.9**	**162.3**	**139.3**
SHAREHOLDER'S EQUITY						
Share capital	US$m	275.9	315.5	467.7	467.7	467.7
Reserves	US$m	(0.6)	19.2	19.2	19.2	19.2
Retained earnings	US$m	36.3	92.8	157.4	373.9	613.7
Total equity to NIC holders	**US$m**	**311.6**	**427.5**	**644.3**	**860.8**	**1,100.6**
Non-controlling interest	US$m	143.2	294.7	294.0	298.0	300.3
Total equity	**US$m**	**454.8**	**722.1**	**938.4**	**1,158.8**	**1,400.9**
Weighted average shares	m	1,324.4	1,631.2	1,761.6	2,128.1	2,128.1

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$/sh**		**0.965**
Market capitalisation	A$m		2,053.6
Net cash	A$m		69.1
Enterprise value (undiluted)	**A$m**		**1,984.5**
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$m		2,053.6
Net cash + options	A$m		69.1
Enterprise value (diluted)	**A$m**		**1,984.5**

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$m	65.5	56.5	93.8	246.2	270.5
Attributable NPAT	A$m	91.6	82.5	137.3	351.8	375.7
Reported EPS	Ac/sh	6.9	5.1	7.8	16.5	17.7
Adjusted EPS	Ac/sh	0.9	4.4	7.8	16.5	17.7
EPS growth	%	nm	46%	13%	112%	7%
PER [1]	x	14.0x	9.5x	12.4x	5.8x	5.5x
DPS	Ac/sh	-	-	2.0	2.0	2.0
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	2%	2%	2%
FCF/share [1]	Ac/sh	(14.4)	2.6	9.4	22.1	23.9
FCF yield [1]	%	-15%	3%	10%	23%	25%
P/FCFPS [1]	x	-6.7x	37.3x	10.3x	4.4x	4.0x
EV/EBITDA [1]	x	68.5x	14.4x	7.4x	4.0x	3.8x
EBITDA margin	%	31%	41%	37%	53%	55%
EBIT margin	%	21%	34%	30%	47%	49%
Return on assets [1]	%	23%	26%	16%	25%	24%
Return on equity [1]	%	37%	49%	30%	41%	34%
LIQUIDITY & LEVERAGE						
Net debt (cash)	$m	(45)	15	(169)	(408)	(679)
ND / E	%	-14%	4%	-26%	-47%	-62%
ND / (ND + E)	%	-17%	3%	-36%	-90%	-161%
EBITDA / Interest	x	nm	46.1x	51.5x	nm	nm

ATTRIBUTABLE DATA - NICKEL MINES LTD

Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e
Revenues	US$m	52.0	156.1	379.9	553.7	561.4
EBITDA	US$m	13.5	57.1	136.3	275.3	290.9
NPAT	US$m	65.5	56.5	93.8	246.2	270.5
Net distributable cash flow	US$m	44.4	1.0	147.7	196.1	224.7
EV/EBITDA	x	105.1	23.8	9.9	5.0	4.9
PER	x	14.0	19.1	12.4	5.8	5.5
P/FCF	x	nm	nm	nm	7.3	6.6

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)		*includes underwritten retail entitlement*				**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**
RKEF (NPV12)	2,163.6	1.02	2,448.9	1.15	2,666.5	1.25
Hengjaya Mine (NPV12)	44.8	0.02	50.8	0.02	70.9	0.03
Other exploration	690.0	0.32	690.0	0.32	690.0	0.32
Corporate overheads	(38.4)	(0.02)	(45.4)	(0.02)	(46.0)	(0.02)
Subtotal (EV)	2,860.0	1.34	3,144.3	1.48	3,381.5	1.59
Net cash (debt)	69.1	0.03	169.0	0.08	408.2	0.19
Total (undiluted)	**2,929.1**	**1.38**	**3,313.3**	**1.56**	**3,789.6**	**1.78**
Dilutive effect of options		-		-		-
Add cash from options	-	-	-	-	-	-
Total (diluted)	**2,929.1**	**1.38**	**3,313.3**	**1.56**	**3,789.6**	**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.

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
TS Lim	Joint Head of Research/Banks	612 8224 2810	tslim
Chris Savage	Joint Head of Research/Industrials	612 8224 2835	csavage
Analysts			
Lafitani Sotiriou	Diversified Financials/Fintech	613 9235 1668	lsotiriou
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare	612 8224 2849	tnjain
Elyse Shapiro	Healthcare	613 9235 1877	eshapiro
Steven Anastasiou	Industrials	613 9235 1952	sanastasiou
James Filius	Industrials	613 9235 1612	jfilius
Sam Haddad	Industrials	612 8224 2819	shaddad
Alex McLean	Industrials	612 8224 2886	amclean
Hamish Murray	Industrials	613 9235 1813	hmurray
Jonathan Snape	Industrials	613 9235 1601	jsnape
Damien Williamson	Industrials	613 9235 1958	dwilliamson
Peter Arden	Resources	613 9235 1833	parden
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
Associate			
Joseph House	Associate Analyst	+61 3 9235 1624	jhouse

Bell Potter Securities Limited
ACN 25 006 390 7721
Level 29, 101 Collins Street
Melbourne, Victoria, 3000
Telephone +61 3 9256 8700
www.bellpotter.com.au

Bell Potter Securities (HK) Limited
Room 1701, 17/F
Posperity Tower, 39 Queens Road
Central, Hong Kong, 0000
Telephone +852 3750 8400

Bell Potter Securities (US) LLC
Floor 39
444 Madison Avenue, New York
NY 10022, U.S.A
Telephone +1 917 819 1410

Bell Potter Securities (UK) Limited
16 Berkeley Street
London, England
W1J 8DZ, United Kingdom
Telephone +44 7734 2929

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Disclosure: Bell Potter Securities acted as JOINT LEAD MANAGER TO THE $55M PLACEMENT OF JUNE 2019 AND JOINT LEAD MANAGER TO THE $231M ENTITLEMENTS ISSUE OF MAY 2020 and received fees for that service.

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