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Nickel Mines Ltd (NIC)

Production growth not priced in

Recommendation	
Buy (unchanged)	
Price	$0.58
Target (12 months)	$1.07 (previously $1.08)

GICS Sector

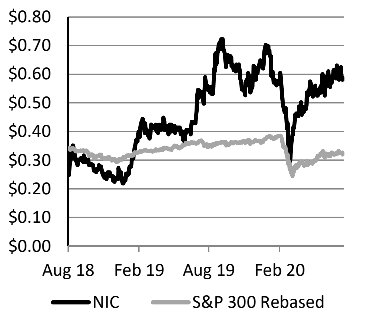
Materials

Expected Return	
Capital growth	84.5%
Dividend yield	0.0%
Total expected return	84.5%
Company Data & Ratios	
Enterprise value	$1,184m
Market cap	$1,234m
Issued capital	2,128m
Free float	72%
Avg. daily val. (52wk)	$4.0m
12 month price range	$0.288-$0.731

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.56	0.48	0.54
Absolute (%)	4.5	21.4	8.2
Rel market (%)	2.5	9.9	21.2

Absolute Price



SOURCE: IRESS

June 2020 quarterly report

NIC has released its June 2020 quarter report, delivering another strong production performance. During the June quarter NIC produced 69,602t of NPI grading 14.5% Ni for 10,104t contained Ni, with 6,062t attributable to NIC (vs BPe 76,154t of NPI grading 14.0% Ni for 10,662t contained Ni, 6,397t attributable). Cash costs were US$7,413/t (vs BPe US$7,657/t). While Ni in NPI production was lower compared to the record production of the March quarter, higher grades contributed to lower cash costs and production remained comfortably above nameplate levels. EBITDA of US$24.0m from NPI production was reported for the June quarter (100%-basis, March quarter US$49.8m) and below our internal estimate of ~$45m. This was due to ~1,600t of unsold NPI production for the quarter (to be sold in the September quarter). Cash on hand increased from US$72.9m to US$91.2m, despite the lower sales and a voluntary debt repayment of US$10.0m, which reduced NIC's drawn debt to US$55.0m.

Cash generation ramping up

With NIC's option to increase its ownership of the NPI production lines to 80% now exercised and funded entirely with equity, the company is in an extremely strong position, in our view. Debt has been further reduced and NIC holds net cash of US$36m. From the current quarter, attributable production will lift to ~8.5kt Ni in NPI per quarter and we estimate free cash flow generation of ~US$35-$40m per quarter. We see opportunities for growth, dividends and refinancing with lower cost debt.

Investment thesis –Buy retained, TP $1.07/sh (from $1.08/sh)

Our lower nickel price forecast for CY20 and lower payability assumption results in lower revenues. These are partially offset by higher NPI grades and lower cash costs. Combined with the delayed ramp-up at the Hengjaya Mine, our CY20 earnings forecast (US$) is lowered 13% and EPS (Acps) lowered 16% on a higher exchange rate. Lower assumed Ni in NPI payability leads to minor earnings downgrades of 5% and 1% in CY21 and CY22 respectively. Our NPV-based target price is lowered 1% to $1.07/sh. NIC is our top pick in the sector, trading on a relatively low CY20 P/E of 5.8x and even lower 3.5x for CY21 while offering clear production growth catalysts.

Earnings Forecast

Year ending 31 December	2019a*	2020e	2021e	2022e
Sales (US$m)	236	524	631	634
EBITDA (US$m)	97	202	331	342
Attributable NPAT (reported) (US$m)	57	118	244	264
Attributable NPAT (reported) (A$m)	83	176	353	366
EPS (adjusted) (A¢ps)	4.4	10.0	16.6	17.2
EPS growth (%)	46%	44%	66%	4%
PER (x) [1]	5.7	5.8	3.5	3.4
FCF Yield (%) [1]	4%	20%	37%	39%
EV/EBITDA (x) [1]	8.8	4.2	2.6	2.5
Dividend (A¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%) [1]	49%	35%	37%	31%

SOURCE: BELL POTTER SECURITIES ESTIMATES *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

Production growth not priced in

June 2020 quarterly report

NIC has released its June 2020 quarter report, delivering another strong production performance from its Rotary Kiln Electric Furnace (RKEF) lines at the Hengjaya and Ranger Nickel Projects at the Indonesia Morowali Industrial Park (IMIP) in Indonesia. During the June quarter they produced 69,602t of NPI grading 14.5% Ni for 10,104t contained Ni, with 6,062t attributable to NIC (vs BPe 76,154t of NPI grading 14.0% Ni for 10,662t contained Ni, 6,397t attributable). Cash costs were US$7,413/t (vs BPe US$7,657/t). While Ni in NPI production was lower compared to the record production of the March quarter, higher grades contributed to lower cash costs and production remained comfortably above nameplate levels.

The strong operating track record has been maintained, with the production and cost performance being achieved through the disruptions of COVID-19 restrictions, flooding due to nearly double the average wet-season rainfall and a period of restricted power supply. No COVID-19 cases have been reported to date at any of NIC's operations.

EBITDA of US$24.0m from NPI production was reported for the June quarter (100%-basis, March quarter US$49.8m) and was also below our internal estimate of ~$45m. This was due to ~1,600t of unsold NPI production for the quarter (which will carry over to the September quarter) and the forward sale in April of much of the quarter's production at lower nickel prices. Combined with a lower nickel price and the disrupted ramp-up at the Hengjaya Mine, these factors have lowered our CY20e EBITDA forecast.

Cash on hand increased from US$72.9m to US$91.2m, despite the lower sales and a further voluntary debt repayment of US$10.0m, which reduced NIC's drawn debt to US$55.0m. During the period NIC raised A$231m (~US$150m) the bulk of which was paid in consideration for the additional 20% in both the Ranger and Hengjaya RKEF lines, lifting NIC's ownership from 60% to 80%, effective 1 July 2020.

Production and sales from the Hengjaya Mine (NIC 80%) again missed our forecasts by some margin, at 54kt (BPe 300kt and down 65% qoq). Production was severely impacted by the heavy rainfall during the quarter. We have pushed back our ramp-up assumptions as a result, but overall this is a relatively small impact on the business.

Key production metrics are summarised below:

Table 1 - NIC quarterly production summary

	Jun-19 Actual	Sep-19 Actual	Dec-19 Actual	Mar-20 Actual	Jun-20 Actual	Jun-20 BP est.	Variance qoq %	Variance vs BPe %
Hengjaya Mine								
Ore sales (t)	96,023	231,487	196,895	155,599	54,029	300,000	-65%	-82%
grade (% Ni)	1.84%	1.84%	1.99%	1.83%	1.80%	1.80%	-1.6%	0.0%
Contained nickel (t Ni)	1,113	4,259	3,918	2,847	973	5,400	-66%	-82%
Mine OPEX (US$/t)	$44.11	$24.85	$26.27	$29.70	$44.73	$23.26	51%	92%
Avg price received (US$/t)	$23.42	$27.72	$37.59	$24.32	$23.79	$25.10	-2%	-5%
RKEF NPI production								
NPI production (t)	33,734	72,393	80,015	79,398	69,602	76,154	-12%	-9%
NPI grade (% Ni)	13.9%	13.8%	13.7%	14.2%	14.5%	14.0%	2%	4%
Contained nickel (t)	4,698	10,020	10,968	11,291	10,104	10,662	-11%	-5%
Contained nickel (t, attributable)	2,684	5,160	6,582	6,775	6,062	6,397	-11%	-5%
Costs								
Cash costs (US$/t Ni)	$7,725	$7,536	$7,831	$7,247	$7,413	$7,657	2%	-3%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Other key takeaways from the result include:

- During the quarter, NIC exercised its option to increase its ownership of the Hengjaya and Ranger RKEF lines from 60% to 80%, for consideration of US$120.0m plus US$30m for undistributed retained earnings. NIC raised A$231m (~US$150m) via a fully underwritten 1 for 3.6 Entitlements Issue priced at A$0.50/sh to fund the acquisition;
- NIC reported a weighted average contract price for the quarter of US$10,320/t Ni, representing **payability of ~85%** of our calculated average LME price for the March quarter of US$12,169/t, down from our estimate of 90% for the March quarter 2020;
- 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);
- The **Hengjaya Mine expansion reached a key milestone** during the June quarter, with mining operations commencing at the Central pit. Heavy rainfall during the quarter significantly disrupted ramp-up progress and, combined with total material movement including a large amount of pre-stripping, saw production more than halve and ore mining costs increase by 50%. NIC continues to target production of 150kt per month and operating costs of US$18/t; and
- NIC has now **stockpiled a total of 368kt of limonite ore** for potential sale to High Pressure Acid Leach (HPAL) projects currently under construction in the IMIP (NIC has no economic interest). We currently don’t attribute any value to these stockpiles but note the HPAL projects are targeting commissioning in late CY21.

Changes to our forecasts

Beyond updating our forecasts for the June quarter production report, we have made the following changes to our modelled assumptions:

- Updated our nickel price and foreign exchange assumptions, which incorporate a 3% lower nickel price and 3% higher AUD:USD exchange rate in CY20;
- Increased our assumed Ni in NPI grade from 13.5% to 14.0% through to the June 2021 quarter, reflecting the sustained production of higher grade NPI;
- Marginally lowered (by 1-3%) our forecast unit operating costs, driven in part by the higher grade NPI assumption;
- Lowered our Ni in NPI payability assumption vs the LME nickel price to 90%, reflecting actual performance to date, lowering our revenue assumptions;
- Pushed back Hengjaya Mine ramp-up schedule following the rain-disrupted June quarter.

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

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$/t)	13,878	16,424	17,527	13,393	16,424	17,527	-3%	0%	0%
US$/A$	0.65	0.69	0.72	0.67	0.69	0.72	3%	0%	0%
Production & costs									
Ore mined (t)	1,235,599	1,560,000	1,560,000	799,628	1,560,000	1,560,000	-35%	0%	0%
Nickel in ore (t)	22,287	28,080	28,080	14,440	28,080	28,080	-35%	0%	0%
RKEF NPI production (t)	307,859	304,615	304,615	301,308	304,615	304,615	-2%	0%	0%
Contained nickel (t)	42,514	40,362	36,554	42,718	41,123	38,077	0%	2%	4%
Contained nickel (t, attributable)	29,621	32,289	29,243	29,896	32,898	30,462	1%	2%	4%
Cash costs (US$/t Ni)	7,695	7,872	8,066	7,424	7,664	7,962	-4%	-3%	-1%
Earnings & valuation									
Revenue (consolidated, US$m)	559	694	662	524	631	634	-6%	-9%	-4%
Revenue (attributable, US$m)	421	547	526	391	532	531	-7%	-3%	1%
EBITDA (attributable, US$m)	167	274	274	146	261	272	-12%	-5%	-1%
NPAT (reported, attributable, US$m)	136	256	266	118	244	264	-13%	-5%	-1%
EPS (reported) (Acps)	11.9	17.4	17.3	10.0	16.6	17.2	-16%	-5%	-1%
PER (x)	4.9	3.3	3.3	5.8	3.5	3.4	0.9	0.2	0.0
EPS growth (%)	72%	46%	-1%	44%	66%	4%	-28%	20%	4%
DPS (Acps)	-	-	-	-	-	-	na	na	na
Yield	0%	0%	0%	0%	0%	0%	0%	0%	0%
NPV (A$/sh)	1.08	1.29	1.40	1.07	1.28	1.41	-1%	0%	0%
Price Target (A$/sh)	1.08			1.07			-1%		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The weaker quarter is offset by our assumption for increased Ni in NPI grades to be maintained over the balance of the year (up from 13.5% to 14.0% Ni in NPI) for a marginal lift in production and lower cash costs. Revenues are reduced on the lower nickel price received due to the forward sales and our lowered assumed payability. Combined with the delayed ramp-up at the Hengjaya Mine, our CY20 earnings forecast (US$) is lowered 13% and with the higher exchange rate applied results in EPS being cut from A11.9cps to A10.0cps.

Our NPV-based target price is lowered 1%, to $1.07/sh, with the key driver being our lower Ni in NPI payability over CY21-CY22.

NIC continues to trade on a relatively low CY20 P/E of 5.8x and CY21 P/E of 3.5x – in our view very good value for what is in many respects a high growth industrial story.

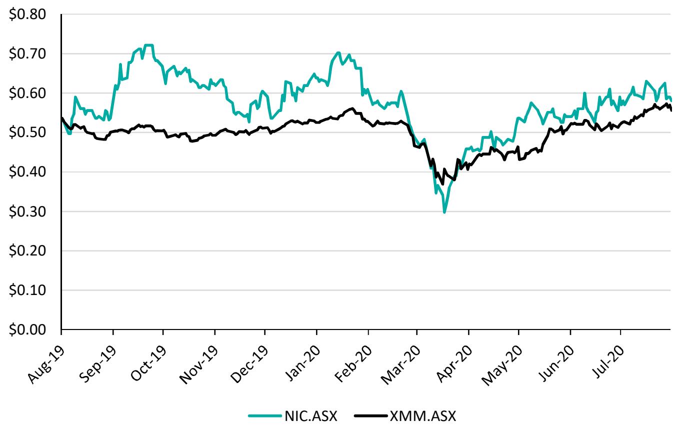
Upcoming catalysts

Upcoming catalysts for NIC include:

- Ongoing production updates from the Hengjaya and Ranger Nickel RKEF lines. Both projects have now achieved steady state production above nameplate. Ongoing updates will reinforce the sustainability of these production levels;
- Updates on Ni in NPI pricing and payabilities, which we would like to see sustained at 90% of the LME nickel price, or better;
- The release of NIC's interim financial results, expected in late August 2020;
- The release of NIC's September 2020 quarterly production and cost report, expected in late October 2020;
- Resource and Reserve updates at the Hengjaya Mine, the progress of its expansion and its delivery of lower operating costs 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') is a newly listed ASX company, formed in 2007. 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. NIC retains an option to increase its ownership of both Hengjaya and Ranger to 80%, for US$120m in total by November 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 retained, TP $1.07/sh (from $1.08/sh)

Our lower nickel price forecast for CY20 and lower payability assumption results in lower revenues. These are partially offset by higher NPI grades and lower cash costs. Combined with the delayed ramp-up at the Hengjaya Mine, our CY20 earnings forecast (US$) is lowered 13% and EPS (Acps) lowered 16% on a higher exchange rate. Lower assumed Ni in NPI payability leads to minor earnings downgrades of 5% and 1% in CY21 and CY22 respectively. Our NPV-based target price is lowered 1% to $1.07/sh. NIC is our top pick in the sector, trading on a relatively low CY20 P/E of 5.8x and even lower 3.5x for CY21 while offering clear production growth catalysts.

Valuation: $1.07/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 notional value for 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 $1.07/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 31 July 2020

Recommendation	Buy
Price	$0.58
Target (12 months)	$1.07

Table 3 - Financial summary

PROFIT AND LOSS

Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e
Revenue	US$m	64.9	236.1	524.3	631.1	633.8
Expense	US$m	(44.5)	(138.9)	(322.1)	(300.2)	(292.1)
EBITDA	**US$m**	**20.4**	**97.2**	**202.2**	**330.8**	**341.8**
Depreciation	US$m	(6.8)	(16.4)	(23.3)	(23.6)	(21.4)
EBIT	US$m	13.6	80.8	178.9	307.2	320.4
Net interest expense	US$m	0.2	(2.1)	(3.9)	2.9	10.5
Unrealised gains (Impairments)	US$m	57.3	7.4	-	-	-
Other	US$m	0.7	5.4	(7.6)	-	-
PBT	**US$m**	**71.9**	**91.5**	**167.4**	**310.1**	**330.9**
Tax expense	US$m	(0.1)	(0.2)	(0.4)	(3.5)	(2.7)
Consolidated profit (loss) for the year	US$m	71.8	91.3	167.0	306.6	328.3
Non-Controlling Interest	US$m	6.3	34.8	49.2	63.1	64.7
Attributable NPAT (reported)	**US$m**	**65.5**	**56.5**	**117.8**	**243.6**	**263.6**
NPAT (underlying)	US$m	8.2	49.1	117.8	243.6	263.6

CASH FLOW

Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e
OPERATING CASHFLOW						
Receipts	US$m	33.4	212.7	569.1	620.4	633.6
Payments	US$m	(28.4)	(169.9)	(294.1)	(305.7)	(294.1)
Tax	US$m	(1.2)	(4.7)	0.1	(0.4)	(3.5)
Net interest	US$m	0.2	0.1	(3.9)	2.9	10.5
Other	US$m	-	-	-	-	-
Operating cash flow	**US$m**	**4.1**	**38.2**	**271.2**	**317.1**	**346.5**
INVESTING CASHFLOW						
Property, plant and equipment	US$m	(19.5)	(29.6)	(131.0)	(2.9)	(2.9)
Mine development	US$m	-	-	-	-	-
Exploration & evaluation	US$m	-	-	(0.4)	(0.4)	(0.4)
Other	US$m	(121.1)	5.8	-	-	-
Investing cash flow	**US$m**	**(140.6)**	**(23.8)**	**(131.4)**	**(3.3)**	**(3.3)**
Free Cash Flow	*US$m*	*(136.5)*	*14.4*	*139.8*	*313.8*	*343.2*
FINANCING CASHFLOW						
Share issues/(buy-backs)	US$m	183.6	-	152.2	-	-
Debt proceeds	US$m	-	-	-	-	-
Debt repayments	US$m	(2.0)	(29.9)	(10.0)	(21.3)	(21.3)
Distributions to non-controlling interests	US$m	15.0	17.0	(49.5)	(59.0)	(62.3)
Dividends	US$m	-	-	-	-	-
Other	US$m	(10.8)	(0.4)	(7.6)	-	-
Financing cash flow	**US$m**	**185.8**	**(13.3)**	**85.1**	**(80.4)**	**(83.6)**
Change in cash	*US$m*	*49.3*	*1.1*	*224.9*	*233.5*	*259.6*

BALANCE SHEET

Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e
ASSETS						
Cash & short term investments	US$m	49.0	49.8	274.7	508.1	767.7
Accounts receivable	US$m	43.7	97.2	52.4	63.1	63.4
Property, plant & equipment	US$m	340.1	628.5	736.2	715.5	697.0
Mine development expenditure	US$m	-	-	-	-	-
Exploration & evaluation	US$m	-	-	0.4	0.8	1.2
Other	US$m	99.2	122.0	122.0	122.0	122.0
Total assets	**US$m**	**531.9**	**897.5**	**1,185.7**	**1,409.5**	**1,651.3**
LIABILITIES						
Accounts payable	US$m	42.2	52.5	80.5	75.1	73.0
Income tax payable	US$m	0.3	0.7	0.4	3.5	2.7
Borrowings	US$m	4.2	65.0	55.0	33.7	12.3
Other	US$m	30.4	57.2	58.0	58.0	58.0
Total liabilities	US$m	**77.2**	**175.4**	**193.9**	**170.1**	**146.0**
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$m	36.3	92.8	210.5	454.1	717.7
Total equity to NIC holders	**US$m**	**311.6**	**427.5**	**697.4**	**941.0**	**1,204.6**
Non-controlling interest	US$m	143.2	294.7	294.4	298.4	300.7
Total equity	**US$m**	**454.8**	**722.1**	**991.8**	**1,239.4**	**1,505.4**
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		1,847.8
Total shares on issue	**m**	(add 280.3m escrow and placement shares)	**2,128.1**
Share price	**A$/sh**		**0.580**
Market capitalisation	A$m		1,234.3
Net cash	A$m		50.1
Enterprise value (undiluted)	**A$m**		**1,184.2**
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$m		1,234.3
Net cash + options	A$m		50.1
Enterprise value (diluted)	**A$m**		**1,184.2**

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$m	65.5	56.5	117.8	243.6	263.6
Attributable NPAT	A$m	91.6	82.5	176.1	353.0	366.1
Reported EPS	Ac/sh	6.9	5.1	10.0	16.6	17.2
Adjusted EPS	Ac/sh	0.9	4.4	10.0	16.6	17.2
EPS growth	%	nm	46%	44%	66%	4%
PER [1]	x	8.4x	5.7x	5.8x	3.5x	3.4x
DPS	Ac/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share [1]	Ac/sh	(14.4)	2.6	11.9	21.4	22.4
FCF yield [1]	%	-25%	4%	20%	37%	39%
P/FCFPS [1]	x	-4.0x	22.4x	4.9x	2.7x	2.6x
EV/EBITDA [1]	x	41.8x	8.8x	4.2x	2.6x	2.5x
EBITDA margin	%	31%	41%	39%	52%	54%
EBIT margin	%	21%	34%	34%	49%	51%
Return on assets [1]	%	23%	26%	19%	24%	21%
Return on equity [1]	%	37%	49%	35%	37%	31%
LIQUIDITY & LEVERAGE						
Net debt (cash)	$m	(45)	15	(220)	(474)	(755)
ND / E	%	-14%	4%	-31%	-50%	-63%
ND / (ND + E)	%	-17%	3%	-46%	-102%	-168%
EBITDA / Interest	x	nm	46.1x	52.2x	nm	nm

ATTRIBUTABLE DATA - NICKEL MINES LTD

Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e
Revenues	US$m	52.0	156.1	391.1	532.2	531.2
EBITDA	US$m	13.5	57.1	146.2	261.2	271.9
NPAT	US$m	65.5	56.5	117.8	243.6	263.6
Net distributable cash flow	US$m	44.4	1.0	202.4	210.1	233.6
EV/EBITDA	x	62.7	14.2	5.4	3.1	3.1
PER	x	8.4	11.5	5.8	3.5	3.4
P/FCF	x	nm	nm	nm	4.1	3.8

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	$6.07	$7.45	$7.95
Nickel	US$/t	$12,343	$15,483	$13,393	$16,424	$17,527
Currency						
AUD:USD		0.72	0.68	0.67	0.69	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	799,628	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	14,440	28,080	28,080
Nickel in ore (attributable)	t Ni	4,782	6,542	11,552	17,199	14,742
RKEF (IMIP)						
NPI production	t	42,106	152,408	301,308	304,615	304,615
Contained nickel	t Ni	5,788	20,988	42,718	41,123	38,077
Contained nickel (attributable)	t Ni	3,339	11,742	29,896	32,898	30,462
Costs						
Cash costs	US$/t Ni	$7,710	$7,689	$7,424	$7,664	$7,962
All-in-Costs (AIC)	US$/t Ni	$8,125	$7,804	$7,536	$7,785	$8,095

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)	1,750.5	0.82	2,021.2	0.95	2,216.3	1.04
Hengjaya Mine (NPV12)	39.0	0.02	45.1	0.02	62.5	0.03
Other exploration	-	-	-	-	-	-
Corporate overheads	(17.6)	(0.01)	(18.6)	(0.01)	(18.8)	(0.01)
Subtotal (EV)	1,771.8	0.83	2,047.7	0.96	2,260.1	1.06
Net cash (debt)	50.1	0.02	219.7	0.10	474.5	0.22
Total (undiluted)	**1,822.0**	**0.86**	**2,267.4**	**1.07**	**2,734.5**	**1.28**
Dilutive effect of options		-		-		-
Add cash from options	-	-	-	-	-	-
Total (diluted)	**1,822.0**	**0.86**	**2,267.4**	**1.07**	**2,734.5**	**1.28**

**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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