

Nickel Mines our top pick, says Bell Potter

By [Trevor Hoey](#). Published at Feb 6, 2019, in [Mining](#).



Shares in Nickel Mines ([ASX:NIC](#)) have increased from 22 cents to 33 cents in the last month — an increase of 50%.

Yet Bell Potter analyst David Coates sees sustained momentum in the stock. Just yesterday, Coates reaffirmed his ‘buy’ recommendation, upgrading forward earnings estimates and increasing his price target from 62 cents to 64 cents, implying share price upside of nearly 100%.

There are several clear reasons that make NIC a compelling investment proposition:

- It holds an 80% interest in a long-life high-grade nickel laterite deposit on the doorstep of the Indonesia Morowali Industrial Park (IMIP) — the world-class, fully integrated nickel and stainless facility operated by the world’s largest stainless steel producer, China’s Tsingshan Group.
- It has established a strategic partnership with Tsingshan to build nickel pig iron (NPI) capacity within the IMIP, with expected delivery of strong operational cashflows, and with production now begun.
- With Tsingshan already its largest shareholder with an 11.6% stake, NIC serves as a logical platform to house and fund Tsingshan’s future growth initiatives.

The following video provides an insight into Tsingshan, underlining the importance of Nickel Mines’ partnership with the stainless steel giant.



This week, NIC clinched a key milestone with its 60% owned Hengjaya Nickel Project [producing its first nickel pig iron](#).

This occurred during a maiden production run from two of the rotary kilns in the project, but as new kilns are commissioned in ensuing months, production will ramp up significantly.

On this note, Coates said: “NPI production from this first RKEF (Rotary Kiln Electric Furnace) line is now expected to ramp-up to 80% of its 75,000 tonnes per annum nameplate production by early April 2019.

“The second Hengjaya RKEF line is expected to be commissioned in early March 2019 and ramp-up to 80% of its 75,000 tonnes per annum nameplate production by early May 2019.”

Coates also highlighted the fact that the two Ranger Nickel Project RKEF lines, in which Nickel Mines currently holds a 17% interest, are also running ahead of schedule, and he expects them to be at more than 80% of their nameplate capacity by the end of July — effectively six months early.

NIC's business model is robust as it services high demand markets and can increase capacity with moderate capital expenditure; the company also benefits from competitive advantages through its corporate relationships.

Success breeds success

Investors generally warm to companies where management establishes a record of exceeding expectations and it seems that Nickel Mines is no exception.

Following its maiden production news, the company's shares increased from 31 cents to hit a high of 35 cents yesterday.

Coates referred to the positive sentiment surrounding the stock, and is of the view that the “hard catalysts likely to drive a rerating calendar year 2019” are advancing rapidly.

Fleshing these out, Coates said: “As nameplate production is achieved, the market will have to take a fresh look at NIC's production and cash flows and value it accordingly.

“NIC does plan to fund its growth, via increased ownership of the Hengjaya and Ranger RKEF lines.

“As long-life, low cost assets we see a wide range of funding options and NIC has an aligned partner in SDI (Shanghai Decent Investments), which invested US\$26 million into NIC pre-IPO.”

In terms of financial metrics, these recent developments prompted Coates to increase his fiscal 2020 earnings forecasts by 12% to US\$85 million.

In Australian currency terms, this represents earnings per share of 8.2 cents, indicating that the company is trading on a fiscal 2020 PE multiple of 4.

With compelling fundamentals and a management team that is delivering ahead of expectations at an operational level, it wouldn't be surprising to see NIC's shares move towards Bell Potter's price target sooner rather than later.



In summing up his stance on the company, Coates said: “NIC remains one of our top picks in the sector on excellent value, strong production growth profile and the quality of its assets.”

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