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Nickel Mines Ltd (NIC)

Aggressive growth outlook intact

Recommendation
Buy (unchanged)
Price
$1.13
Target (12 months)
$1.56 (previously $1.67)

GICS Sector
Materials

Expected Return

Capital growth	**38.1%**
Dividend yield	**2.7%**
Total expected return	**40.8%**

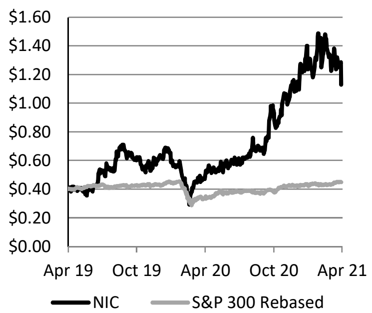
Company Data & Ratios

Enterprise value	**$2,676m**
Market cap	**$2,842m**
Issued capital	**2,515m**
Free float	**79%**
Avg. daily val. (52wk)	**$9.8m**
12 month price range	**$0.47-$1.54**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	1.35	1.28	0.47
Absolute (%)	-16.0	-11.4	142.7
Rel market (%)	-19.9	-15.3	107.0

Absolute Price



SOURCE: IRESS

March 2021 quarterly report

NIC released its March 2021 quarter report, announcing lower production and higher costs from its Hengjaya and Ranger Nickel Projects at the IMIP in Indonesia compared with our forecasts. During the March quarter NIC produced 71,939t of NPI grading 14.0% Ni for 10,068t contained Ni, with 8,054t attributable to NIC (vs BPe 76,154t of NPI grading 14.5% Ni for 11,042t contained Ni, 8,834t attributable). Cash costs were US$8,683/t (vs BPe US$7,360/t). NPI production was down 13% qoq on lower throughput and lower Ni in NPI grades. Production was disrupted during the quarter by a regional seismic event and Chinese New Year holidays. Costs were up 15% qoq on higher input costs (nickel ore, thermal coal and met coal prices were all up during the quarter). Cash on hand decreased from US$351.4m to US$129.3m after NIC paid US$180m in staged consideration to lift its interest in Angel Nickel to 30%, repaid the balance of its US$45m Ranger debt facility and paid US$38.8m in dividends.

Weak quarter, but compelling value for low-risk growth

While these results were below our forecasts, they need to be put in the context of expectations that have continuously lifted due to outperformance since operations commenced. NPI production and grades were lower, but still ahead of early project expectations of ~70kt @ 13% Ni for <10kt Ni in NPI at costs of ~US$8,300/t (100% basis). In our view this performance, while at the lower end, is within the range of expectations for this type of asset. Realised nickel prices were another downside surprise, but we point out that this was in a volatile nickel price environment and over the life of the project to date, price realisation vs LME nickel has averaged ~87%. NIC also remains well-positioned to nearly double production within 18-24 months, with sufficient forecast liquidity to lift its interest in Angel Nickel to 80%.

Investment thesis – Buy, TP$1.56/sh (from $1.67/sh)

We have cut our forecast CY21 earnings by 24%, on lower production, higher costs and lower assumed payability. Earnings for CY22 are cut 6%. Our NPV-based valuation is lowered by 7%, to $1.56/sh. We see very strong upside for NIC, which is now trading on a CY21 P/E of 12.0x, compelling value for a high growth stock.

Earnings Forecast

Year ending 31 December	2020a	2021e	2022e	2023e
Sales (US$m)	523	599	721	1,299
EBITDA (US$m)	194	269	382	699
Attributable NPAT (reported) (US$m)	111	178	252	445
Attributable NPAT (reported) (A$m)	160	237	350	609
EPS (adjusted) (A¢ps)	8.2	9.4	13.9	24.2
EPS growth (%)	62%	15%	48%	74%
PER (x) 1	13.8	12.0	8.1	4.7
FCF Yield (%) 1	-2%	-9%	17%	33%
EV/EBITDA (x) 1	10.7	7.7	5.5	3.0
Dividend (A¢ps)	3	3	3	6
Yield (%)	3%	3%	3%	5%
Franking (%)	0%	0%	0%	0%
ROE (%) 1	27%	22%	27%	39%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Aggressive growth outlook intact

March 2021 quarterly report

NIC has released its March 2021 quarter report, announcing production and costs from its Rotary Kiln Electric Furnace (RKEF) lines at the Hengjaya and Ranger Nickel Projects at the IMIP in Indonesia that did not meet our forecasts.

During the March quarter NIC produced 71,939t of NPI grading 14.0% Ni for 10,068t contained Ni, with 8,054t attributable to NIC (vs BPe 76,154t of NPI grading 14.5% Ni for 11,042t contained Ni, 8,834t attributable). Cash costs were US$8,683/t (vs BPe US$7,360/t).

Ni in NPI production was down 13% qoq on lower throughput and lower Ni in NPI grades. Production was disrupted during the quarter by a regional seismic event and Chinese New Year holidays. Costs were up 15% qoq on higher input costs (laterite nickel ore, thermal coal and met coal prices were all up during the quarter). Costs were also impacted as a decision was made to produce lower grade NPI (14.0% Ni in NPI vs 15.0% Ni in NPI in the December 2020 quarter). This strategy was implemented to optimise profit margins in an NPI market where higher grades are currently attracting a discount to benchmark grades.

EBITDA of US$50.7m from NPI production was reported for the March 2021 quarter (100%-basis, vs December 2020 quarter US$71.6m) and is consistent with our calculations.

Cash on hand decreased from US$351.4m to US$129.3m. During the quarter NIC paid US$180m in staged consideration to lift its interest in Angel Nickel to 30%, repaid the balance of its US$45m Ranger debt facility and paid US$38.8m in dividends.

Production and sales from the Hengjaya Mine (NIC 80%) maintained its expanded target production rate of +150kt per month laterite nickel ore during the quarter, achieving production of 456kt and sales of 424kt. The mine is on track for its annual production target of 1.5Mtpa (125kt per month). Operating costs at the mine continued to improve, dropping 10% to US$22.78/t (CIF basis) and US$17/t (FOB basis).

Key production metrics are summarised below:

Table 1 - NIC quarterly production summary

	Mar-20 Actual	Jun-20 Actual	Sep-20 Actual	Dec-20 Actual	Mar-21 Actual	Mar-21 BP est.	Variance qoq %	Variance vs BPe %
Hengjaya Mine								
Ore sales (t)	155,599	54,029	129,264	456,758	424,410	450,000	-7%	-6%
grade (% Ni)	1.83%	1.80%	1.85%	1.81%	1.77%	1.80%	-2.2%	-1.7%
Contained nickel (t Ni)	2,847	973	2,391	8,267	7,512	8,100	-9%	-7%
Mine OPEX (US$/t)	$29.70	$44.73	$40.68	$25.30	$22.78	$20.60	-10%	11%
Avg price received (US$/t)	$24.32	$23.79	$31.39	$32.58	$35.40	$32.00	9%	11%
RKEF NPI production								
NPI production (t)	79,398	69,602	69,830	77,067	71,939	76,154	-7%	-6%
NPI grade (% Ni)	14.2%	14.5%	15.3%	15.0%	14.0%	14.5%	-6%	-3%
Contained nickel (t)	11,291	10,104	10,700	11,527	10,068	11,042	-13%	-9%
Contained nickel (t, attributable)	6,775	6,062	8,560	9,222	8,054	8,834	-13%	-9%
Costs								
Cash costs (US$/t Ni)	$7,247	$7,367	$7,201	$7,526	$8,683	$7,360	15%	18%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

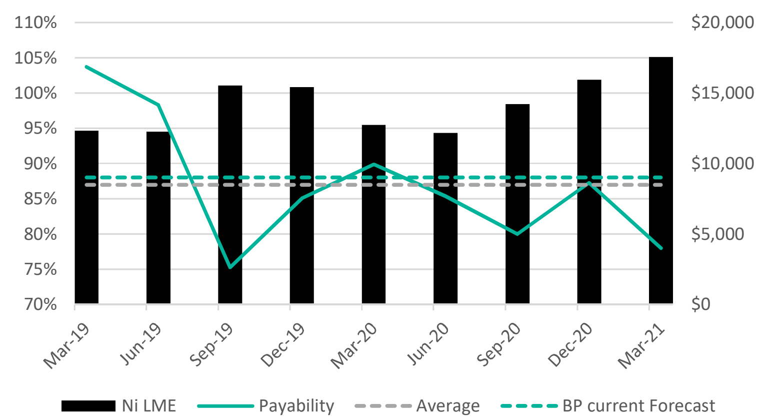
Other key takeaways from the result include:

- NIC provided some cost sensitivity data points for the quarter. These related to the increase in nickel ore pricing, up US$4/t over the quarter (from US$37/t to US$41/t) resulting in a ~US$500/t increase in NPI production cash costs. Higher met coal (reductant agent) and thermal coal prices resulted in power costs lifting from US5c/kWh to US6c/kWh for a US$700/t increase in NPI production cash costs;
- NIC guided that Ni in NPI grades would remain lower, in the range of 13.0-14.0% over the balance of CY21, compared with an average of 14.8% Ni in NPI grade over CY21;
- We calculate a weighted average contract price for the March quarter of US$13,599/t Ni (down 5% from US$14,262/t Ni in the December quarter). While pricing is now based on Chinese NPI Indices, the price received represents ~78% of the average LME nickel price for the March quarter of US$17,556/t;
- At the Hengjaya mine, limonite ore (suitable for use in HPAL nickel plants under construction at the IMIP) continued to be stockpiled for possible future sale. Third party press reports that production commencement is targeted for Q1CY22 by the HPAL partners;
- During the quarter, NIC completed a maiden bond issue of US$175m. The bonds are Senior Unsecured Notes with an interest rate of 6.5%, maturing 1 April 2024. Proceeds of the issue were received post quarter-end. The offering was downsized from US$300m to achieve the lowest rate while also providing sufficient funding to complete the Angel Nickel acquisition by the end of CY21; and
- At the Angel Nickel project construction and development continues to advance. While no update was provided on the targeted Q1CY23 production start date, we remain of the view it will be achieved on-time or before.

Realised NPI pricing

We note the lower realised pricing vs the average LME nickel price for the March 2021 quarter. The chart below shows our estimates of the apparent payability since commencement of production across the Ranger and Hengjaya RKEF lines.

Figure 1 - Realised pricing



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The chart shows that discounts typically have widened with volatility in the nickel price. However, over the life of the projects to date, payability has averaged ~87% of the LME nickel price (inclusive of the latest dip in the March 2021 quarter). We have lowered our near term forecast for payability to 88% of LME (from 90%), with our view being that based on realised pricing to date, this is a representative level.

Angel Nickel acquisition

NIC is in the process of executing a binding agreement to acquire an 80% interest in the Angel Nickel project, comprising 4 next-generation rotary-kiln-electric-furnace (RKEF) lines being developed within the Indonesia Weda Bay Industrial Park (IWIP), for total, discounted, consideration of US$554m (US$560m undiscounted, US$700m 100%-basis valuation).

During the quarter NIC paid the US$180m balance of the US$210m Stage 1 consideration (US$30m was paid during the December quarter) securing a 30% stake in the Angel Nickel project.

Post quarter-end NIC paid a further consideration of US$137.6m (discounted by US$2.4m for early payment) to secure a further 20% interest, lifting its ownership to 50%. A portion of the US$175m bond issue was used to fund this acquisition. This leaves the US$210m consideration for the final 30% interest is to be paid by 31 December 2021.

We estimate free cash flows attributable to NIC of US$41m for the March quarter and forecast a further US$110m for the June and September quarters. Together with the surplus US$37.4m from the recent debt issue and March 31st cash balance of US$129.3m, this should provide sufficient liquidity (~US$277m) to pay the final consideration by end December (taking into account trade receivable payment terms).

Changes to our forecasts

Beyond updating our forecasts for the March 2021 quarter production and cost report, we have made the following changes to our modelled assumptions:

- Lowered our assumed Ni NPI grade from 14.5% Ni to 13.5% Ni for approximate quarterly production of ~10.2kt contained (down from ~10.7kt per quarter previously);
- Lowered our payability assumption from 90% to 88%, in line with the average price realisation achieved to date at the Ranger and Hengjaya projects;
- Increased our operating cost forecasts, making an allowance for higher underlying power generation costs and nickel ore purchase costs;
- Increased our sales price assumptions for the Hengjaya Mine ore production;
- Updated for our latest commodity price and exchange rate forecasts, which include a 2% increase CY21 nickel price, partially offset by a 1% increase in the AUD:USD exchange rate; and
- Updated for the latest capital structure.

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-21	Dec-22	Dec-23	Dec-21	Dec-22	Dec-23	Dec-21	Dec-22	Dec-23
Prices & currency									
Nickel price (US$/t)	16,424	17,857	18,629	16,735	17,857	18,629	2%	0%	0%
US$/A$	0.75	0.72	0.73	0.75	0.72	0.73	1%	0%	0%
Production & costs									
Ore mined (t)	1,800,000	1,800,000	1,800,000	1,774,410	1,800,000	1,800,000	-1%	0%	0%
Nickel in ore (t)	32,400	32,400	32,400	31,812	32,400	32,400	-2%	0%	0%
RKEF NPI production (t)	304,615	324,615	579,615	298,439	322,000	579,615	-2%	-1%	0%
Contained nickel (t)	44,169	46,569	77,169	41,400	44,680	75,646	-6%	-4%	-2%
Contained nickel (t, attributable)	35,335	37,255	61,735	33,120	35,744	60,517	-6%	-4%	-2%
Cash costs (US$/t Ni)	7,429	7,672	7,881	8,339	8,017	8,092	12%	4%	3%
Earnings & valuation									
Revenue (consolidated, US$m)	664	752	1,325	599	721	1,299	-10%	-4%	-2%
Revenue (attributable, US$m)	577	646	1,091	530	626	1,074	-8%	-3%	-2%
EBITDA (attributable, US$m)	280	325	578	216	304	557	-23%	-7%	-4%
NPAT (reported, attributable, US$m)	233	268	478	178	252	445	-24%	-6%	-7%
EPS (reported) (Acps)	12.5	14.8	26.0	9.4	13.9	24.2	-24%	-6%	-7%
PER (x)	9.1	7.6	4.3	12.0	8.1	4.7	2.9	0.5	0.3
EPS growth (%)	52%	19%	76%	15%	48%	74%	-37%	29%	-2%
DPS (Acps)	4	4	7	3	3	6	-25%	-25%	-14%
Yield	4%	4%	6%	3%	3%	5%	-1%	-1%	-1%
NPV (A$/sh)	1.64	1.67	2.10	1.46	1.56	2.00	-11%	-7%	-5%
Price Target (A$/sh)		1.67			1.56			-7%	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Our updated assumptions result in a 24% cut to our forecast CY21 earnings, driven primarily by our lower production and higher cost assumptions, as well as the lower assumed payability for CY21. Earnings for CY22 are cut 6% on lower NPI production and grade assumptions. Our NPV-based, sum-of-the-parts valuation is lowered by 7%, to $1.56/sh on these updates to our forecasts. We point out that very strong upside to NIC's valuation remains, currently trading on a CY21 P/E of 12.0x, in our view compelling value for a stock that is on track to double its production in 18-24 months.

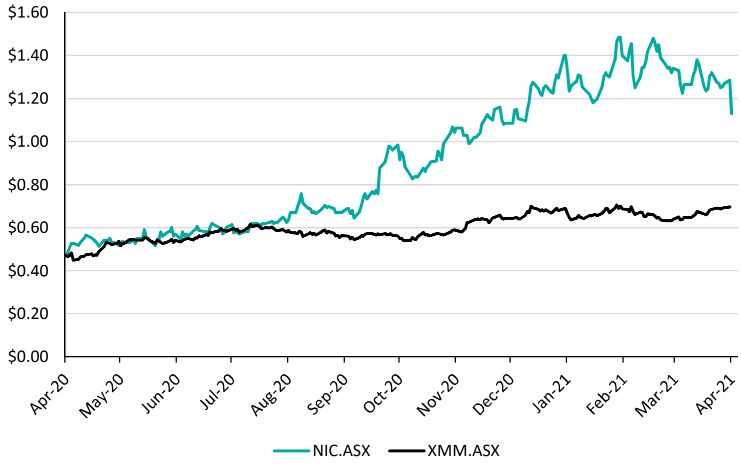
Upcoming catalysts

Upcoming catalysts for NIC include:

- Completion of the acquisition of the remaining 30% interest in Angel Nickel, to lift NIC's ownership to 80%, by end CY21 and possibly earlier;
- Ongoing production updates from the Hengjaya and Ranger Nickel RKEF lines. Both projects have now achieved established production levels above nameplate;
- Updates on NPI pricing and the effective Ni payability, which we believe the market will still be considering as a measure of NIC's nickel price exposure;
- Updates on the construction of the Angel Nickel project, comprising 4 next-generation rotary-kiln-electric-furnace (RKEF) lines being developed within the Indonesia Weda Bay Industrial Park (IWIP), for which NIC has executed a binding agreement to acquire a 80% interest for US$560m total, undiscounted, consideration;
- Progress updates for the Hengjaya Mine, where a major production expansion is complete and the sustainability of production of +150kt ore per month and costs of ~US$20/t are targeted;
- The release of NIC's June 2021 quarterly production and cost report, expected in late July 2021; 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 December 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 (since increased to 80%) 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$1.56/sh (from $1.67/sh)

We have cut our forecast CY21 earnings by 24%, on lower production, higher costs and lower assumed payability. Earnings for CY22 are cut 6%. Our NPV-based valuation is lowered by 7%, to $1.56/sh. We see very strong upside for NIC, which is now trading on a CY21 P/E of 12.0x, compelling value for a high growth stock.

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 80% 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 28 April 2021

Recommendation	Buy
Price	$1.13
Target (12 months)	$1.56

Table 3 - Financial summary

PROFIT AND LOSS

Year ending 31 Dec. (from 2020)	Unit	2019a*	2020a	2021e	2022e	2023e
Revenue	US$m	236.1	523.5	599.1	721.2	1,299.3
Expense	US$m	(138.9)	(329.0)	(330.0)	(339.6)	(600.3)
EBITDA	**US$m**	**97.2**	**194.5**	**269.1**	**381.6**	**699.0**
Depreciation	US$m	(16.4)	(36.8)	(40.3)	(49.1)	(66.7)
EBIT	US$m	80.8	157.7	228.8	332.5	632.3
Net interest expense	US$m	(2.1)	(4.7)	(0.5)	(6.5)	(0.6)
Unrealised gains (Impairments)	US$m	7.4	-	-	-	-
Other	US$m	5.4	1.6	-	-	-
PBT	**US$m**	**91.5**	**154.6**	**228.3**	**326.0**	**631.7**
Tax expense	US$m	(0.2)	(0.9)	(4.1)	(7.7)	(73.5)
Consolidated profit (loss) for the year	US$m	91.3	153.7	224.3	318.3	558.2
Non-Controlling Interest	US$m	34.8	43.1	46.3	66.3	113.4
Attributable NPAT (reported)	**US$m**	**56.5**	**110.6**	**177.9**	**252.1**	**444.8**
NPAT (underlying)	US$m	49.1	110.6	177.9	252.1	444.8

CASH FLOW

Year ending 31 Dec. (from 2020)	Unit	2019a*	2020a	2021e	2022e	2023e
OPERATING CASHFLOW						
Receipts	US$m	212.7	517.6	657.0	709.0	1,241.5
Payments	US$m	(169.9)	(358.9)	(287.8)	(337.2)	(535.1)
Tax	US$m	(4.7)	(9.1)	0.9	(4.1)	(7.7)
Net interest	US$m	0.1	0.3	(0.5)	(6.5)	(0.6)
Other	US$m	-	-	-	-	-
Operating cash flow	**US$m**	**38.2**	**150.0**	**369.6**	**361.3**	**698.1**
INVESTING CASHFLOW						
Property, plant and equipment	US$m	(29.6)	(7.4)	(554.1)	(10.9)	(11.7)
Mine development	US$m	-	(147.0)	-	-	-
Exploration & evaluation	US$m	-	-	(0.4)	(0.4)	(0.4)
Other	US$m	5.8	(30.0)	-	-	-
Investing cash flow	**US$m**	**(23.8)**	**(184.4)**	**(554.5)**	**(11.3)**	**(12.1)**
Free Cash Flow	*US$m*	*14.4*	*(34.5)*	*(184.9)*	*350.0*	*686.0*
FINANCING CASHFLOW						
Share issues/(buy-backs)	US$m	-	430.0	-	-	-
Debt proceeds	US$m	-	-	175.0	-	-
Debt repayments	US$m	(29.9)	(25.3)	(45.0)	-	-
Distributions to non-controlling interests	US$m	17.0	(43.3)	(43.9)	(61.4)	(68.7)
Dividends	US$m	-	(15.4)	(56.6)	(54.3)	(110.2)
Other	US$m	(0.4)	(12.4)	-	-	-
Financing cash flow	**US$m**	**(13.3)**	**333.6**	**29.5**	**(115.7)**	**(178.9)**
Change in cash	*US$m*	*1.1*	*299.2*	*(155.5)*	*234.3*	*507.1*

BALANCE SHEET

Year ending 31 Dec. (from 2020)	Unit	2019a*	2020a	2021e	2022e	2023e
ASSETS						
Cash & short term investments	US$m	49.8	351.4	196.0	430.3	937.4
Accounts receivable	US$m	97.2	117.8	59.9	72.1	129.9
Property, plant & equipment	US$m	628.5	600.8	1,122.8	1,084.6	1,029.6
Mine development expenditure	US$m	-	-	-	-	-
Exploration & evaluation	US$m	-	-	0.4	0.8	1.2
Other	US$m	122.0	164.7	164.7	164.7	164.7
Total assets	US$m	**897.5**	**1,234.7**	**1,543.8**	**1,752.5**	**2,262.8**
LIABILITIES						
Accounts payable	US$m	52.5	40.3	82.5	84.9	150.1
Income tax payable	US$m	0.7	3.8	4.1	7.7	73.5
Borrowings	US$m	65.0	45.0	187.9	187.9	187.9
Other	US$m	57.2	59.4	59.4	59.4	59.4
Total liabilities	US$m	**175.4**	**148.4**	**333.9**	**339.9**	**470.9**
SHAREHOLDER'S EQUITY						
Share capital	US$m	315.5	732.9	732.9	732.9	732.9
Reserves	US$m	19.2	19.2	19.2	19.2	19.2
Retained earnings	US$m	92.8	187.9	309.2	507.0	841.6
Total equity to NIC holders	**US$m**	**427.5**	**940.1**	**1,061.4**	**1,259.1**	**1,593.7**
Non-controlling interest	US$m	294.7	146.2	148.6	153.5	198.2
Total equity	**US$m**	**722.1**	**1,086.2**	**1,210.0**	**1,412.6**	**1,791.9**
Weighted average shares	m	1,631.2	1,948.7	2,515.3	2,515.0	2,515.0

CAPITAL STRUCTURE

Shares on issue	m		2,515.0
Total shares on issue	**m**	(add 0.0m escrow and placement shares)	**2,515.0**
Share price	**A$/sh**		**1.130**
Market capitalisation	A$m		2,842.0
Net cash	A$m		166.2
Enterprise value (undiluted)	**A$m**		**2,675.8**
Options outstanding (m)	m		0.0
Options (in the money)	m		0.0
Issued shares (diluted for options)	m		2,515.0
Market capitalisation (diluted)	A$m		2,842.0
Net cash + options	A$m		166.2
Enterprise value (diluted)	**A$m**		**2,675.8**

MAJOR SHAREHOLDERS

Shareholder	%	m
Shanghai Decent (SDI)	15.7%	395.5
Tanito Group (PT Karunia)	15.0%	378.4
BlackRock Investment Management	5.7%	144.0
Baillie Gifford	5.2%	129.6
Shanghai Wanlu	4.8%	121.3

FINANCIAL RATIOS

Year ending 31 Dec. (from 2020)	Unit	2019a*	2020a	2021e	2022e	2023e
VALUATION						
Attributable NPAT	US$m	56.5	110.6	177.9	252.1	444.8
Attributable NPAT	A$m	82.5	160.1	237.0	350.1	609.3
Reported EPS	Ac/sh	5.1	8.2	9.4	13.9	24.2
Adjusted EPS	Ac/sh	4.4	8.2	9.4	13.9	24.2
EPS growth	%	46%	62%	15%	48%	74%
PER [1]	x	11.2x	13.8x	12.0x	8.1x	4.7x
DPS	Ac/sh	-	3.0	3.0	3.0	6.0
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	3%	3%	3%	5%
FCF/share [1]	Ac/sh	2.6	(2.6)	(9.8)	19.3	37.4
FCF yield [1]	%	2%	-2%	-9%	17%	33%
P/FCFPS [1]	x	43.7x	-44.2x	-11.5x	5.8x	3.0x
EV/EBITDA [1]	x	21.4x	10.7x	7.7x	5.5x	3.0x
EBITDA margin	%	41%	37%	45%	53%	54%
EBIT margin	%	34%	30%	38%	46%	49%
Return on assets [1]	%	26%	17%	16%	19%	28%
Return on equity [1]	%	49%	27%	22%	27%	39%
LIQUIDITY & LEVERAGE						
Net debt (cash)	$m	15	(306)	(8)	(242)	(750)
ND / E	%	4%	-33%	-1%	-19%	-47%
ND / (ND + E)	%	3%	-48%	-1%	-24%	-89%
EBITDA / Interest	x	46.1x	40.9x	564.9x	58.9x	1130.1x

ATTRIBUTABLE DATA - NICKEL MINES LTD

Year ending 31 Dec. (from 2020)	Unit	2019a*	2020a	2021e	2022e	2023e
Revenues	US$m	95.7	391.3	529.5	626.4	1,074.0
EBITDA	US$m	35.6	139.7	215.9	303.7	557.0
NPAT	US$m	56.5	110.6	177.9	252.1	444.8
Net distributable cash flow	US$m	1.0	269.3	(139.9)	210.8	456.4
EV/EBITDA	x	51.4	13.2	9.3	6.3	3.5
PER	x	22.3	13.8	12.0	8.1	4.7
P/FCF	x	nm	nm	nm	9.7	4.5

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*	2020a	2021e	2022e	2023e
Nickel	US$/lb	$7.02	$6.25	$7.59	$8.10	$8.45
Nickel	US$/t	$15,483	$13,775	$16,735	$17,857	$18,629
Currency						
AUD:USD		0.68	0.69	0.75	0.72	0.73

ASSUMPTIONS - Production & costs

Year ending 31 Dec. (from 2020)	Unit	2019a*	2020a	2021e	2022e	2023e
Hengjaya Mine						
Ore mined	wmt	428,382	795,650	1,774,410	1,800,000	1,800,000
Ore grade	% Ni	1.9%	1.8%	1.8%	1.8%	1.8%
Nickel in ore	t Ni	8,178	14,479	31,812	32,400	32,400
Nickel in ore (attributable)	t Ni	6,542	11,583	25,450	25,110	17,577
RKEF (IMIP)						
NPI production	t	152,408	295,897	298,439	322,000	579,615
Contained nickel	t Ni	20,988	43,622	41,400	44,680	75,646
Contained nickel (attributable)	t Ni	11,742	30,619	33,120	35,744	60,517
Costs						
Cash costs	US$/t Ni	$7,689	$7,330	$8,339	$8,017	$8,092
All-in-Costs (AIC)	US$/t Ni	$7,804	$7,414	$8,450	$8,175	$8,221

VALUATION

Ordinary shares (m)						**2,515.0**
Options in the money (m)						-
Total shares diluted (m)						**2,515.0**
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)	2,438.0	0.97	2,656.4	1.06	2,738.6	1.09
IWIP RKEF (NPV12)	1,092.8	0.43	1,260.9	0.50	2,041.8	0.81
Hengjaya Mine (NPV12)	20.6	0.01	23.5	0.01	45.3	0.02
Other exploration	10.0	0.00	10.0	0.00	10.0	0.00
Corporate overheads	(44.7)	(0.02)	(45.1)	(0.02)	(45.6)	(0.02)
Subtotal (EV)	3,516.7	1.40	3,905.6	1.55	4,790.1	1.90
Net cash (debt)	166.2	0.07	8.1	0.00	242.4	0.10
Total (undiluted)	**3,682.9**	**1.46**	**3,913.7**	**1.56**	**5,032.5**	**2.00**
Dilutive effect of options		-		-		-
Add cash from options	-	-	-	-	-	-
Total (diluted)	**3,682.9**	**1.46**	**3,913.7**	**1.56**	**5,032.5**	**2.00**

**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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