BELL POTTER

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Nickel Mines Ltd (NIC)

Margins beat costs

Recommendation
Buy (unchanged)
Price
$1.025
Target (12 months)
$1.39 (previously $1.50)

GICS Sector

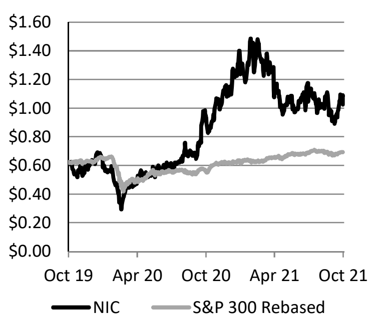
Materials

Expected Return	
Capital growth	35.6%
Dividend yield	3.9%
Total expected return	39.5%
Company Data & Ratios	
Enterprise value	$2,890m
Market cap	$2,578m
Issued capital	2,515m
Free float	76%
Avg. daily val. (52wk)	$13.4m
12 month price range	$0.82-$1.54

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.95	1.15	0.96
Absolute (%)	7.9	-10.5	6.8
Rel market (%)	6.6	-11.2	-14.3

Absolute Price



SOURCE: IRESS

September 2021 quarter

During the quarter NIC produced 73,154t of NPI grading 13.8% Ni for 10,113t contained Ni, with 8,091t attributable to NIC (vs BPe 75,500t of NPI grading 13.5% Ni for 10,193t contained Ni, 8,154t attributable). Cash costs were US$10,377/t (vs BPe US$9,810). Contained Ni in NPI production was effectively unchanged, with lower NPI production offset by higher Ni grades. Production was in-line with our forecasts but costs rose again, driven primarily by higher thermal and metallurgical coal prices. EBITDA of US$62.6m from NPI production was reported for the quarter (100%-basis), up 23% qoq and equated to an EBITDA margin of 37%. Together with US$5.8m EBITDA for the Hengjaya Mine, NIC is well placed to meet our CY21 EBITDA forecast of US$253m (100%-basis).

Cost curve advantage

Operating costs continued to rise (~14% qoq) at the Hengjaya and Ranger projects, primarily due to rising electricity costs and met coal prices (~117% increase in Indonesian thermal coal prices and ~109% increase in met coal prices over the September quarter). However, NIC still increased its EBITDA margin due to its lower cost base, minimal exposure to shipping costs and its exposure to nickel ore costs being offset by increased production from the Hengjaya Mine. NPI prices are also currently being set by marginal producers in China, with cash costs of US$18,000-US$21,000/t. NIC's cash costs of US$10,400/t are in the bottom quartile of the cost curve and enabled EBITDA margins in the September quarter to increase by 31% qoq, to US$6,190/t Ni sold, just 1.5% below NIC's record margin of US$6,280/t (4QCY20).

Investment thesis – Buy, TP$1.39/sh (from $1.50/sh)

Earnings changes in this update are: CY21: +4%, CY22: -27% and CY23: -7%. The main driver is the extrapolation of higher input costs into CY22, partially offset by increased revenues from the Hengjaya Mine. Our NPV-based, sum-of-the-parts valuation is cut 7% to $1.39/sh. We retain our Buy recommendation on valuation metrics that look attractive for an aggressive growth stock.

Earnings Forecast

Year ending 31 December	2020a	2021e	2022e	2023e
Sales (US$m)	523	624	801	1,269
EBITDA (US$m)	194	253	345	632
Attributable NPAT (reported) (US$m)	111	157	196	392
Attributable NPAT (reported) (A$m)	160	208	268	537
EPS (adjusted) (A¢ps)	8.2	8.3	10.7	21.4
EPS growth (%)	62%	1%	29%	100%
PER (x) 1	12.5	12.4	9.6	4.8
FCF Yield (%) 1	-2%	-11%	17%	31%
EV/EBITDA (x) 1	11.2	8.6	6.3	3.4
Dividend (A¢ps)	3	4	4	7
Yield (%)	3%	4%	4%	7%
Franking (%)	0%	0%	0%	0%
ROE (%) 1	27%	20%	23%	39%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Margins beat costs

September 2021 quarterly report

NIC has released its September 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. Production was in-line with our forecasts but costs rose again, driven primarily by higher thermal and metallurgical coal prices.

During the September quarter NIC produced 73,154t of NPI grading 13.8% Ni for 10,113t contained Ni, with 8,091t attributable to NIC (vs BPe 75,500t of NPI grading 13.5% Ni for 10,193t contained Ni, 8,154t attributable). Cash costs were US$10,377/t (vs BPe US$9,810). Ni in NPI production was effectively unchanged qoq with lower NPI production offset by higher Ni grades.

Production from the Hengjaya Mine (NIC 80%) of 579kt comfortably exceeded its expanded production rate target of +150kt per month laterite nickel ore and is also beginning to benefit from rising nickel ore prices. Post quarter-end a limonite ore supply agreement was finalised with PT Huayue Nickel Cobalt, the operators of a newly constructed High Pressure Acid Leach (HPAL) nickel processing facility within the IMIP that is about to commence commissioning. The ore supply agreement is for initial sales of 150,000wmt for delivery between the middle of November and the end of December 2021.

EBITDA of US$62.6m from NPI production was reported for the September 2021 quarter (100%-basis, vs June 2021 quarter US$50.8m) and is consistent with our calculations. Together with US$5.8m EBITDA reported for the Hengjaya Mine (vs June 2021 quarter US$7.1m), NIC is well placed to meet our CY21 EBITDA forecast of US$253m (100%-basis).

Cash on hand decreased from US$189.9m to US$120.8m. During the quarter NIC paid US$210m in staged consideration to lift its interest in Angel Nickel from 50% to 80%, paid a further US$36.4m in dividend distributions and received US$147m proceeds from the 'tap' issuance of 6.5% coupon Senior Unsecured Notes. Debt at end September totalled US$325m in Senior Unsecured Notes.

Key production metrics are summarised below:

Table 1 - NIC quarterly production summary

	Sep-20 Actual	Dec-20 Actual	Mar-21 Actual	Jun-21 Actual	Sep-21 Actual	Sep-21 BP est.	Variance qoq %	Variance vs BPe %
Hengjaya Mine								
Ore sales (t)	129,264	456,758	424,410	542,384	568,692	450,000	5%	26%
grade (% Ni)	1.85%	1.81%	1.77%	1.78%	1.74%	1.80%	-2.2%	-3.3%
Contained nickel (t Ni)	2,391	8,267	7,512	9,654	9,895	8,100	2%	22%
Mine OPEX (US$/t)	$40.68	$25.30	$22.78	$23.48	$24.61	$23.80	5%	3%
Avg price received (US$/t)	$31.39	$32.58	$35.40	$36.09	$36.45	$36.09	1%	1%
RKEF NPI production								
NPI production (t)	69,830	77,067	71,939	74,487	73,154	75,500	-2%	-3%
NPI grade (% Ni)	15.3%	15.0%	14.0%	13.6%	13.8%	13.5%	2%	2%
Contained nickel (t)	10,700	11,527	10,068	10,143	10,113	10,193	0%	-1%
Contained nickel (t, attributable)	8,560	9,222	8,054	8,114	8,091	8,154	0%	-1%
Costs								
Cash costs (US$/t Ni)	$7,201	$7,526	$8,683	$9,107	$10,377	$9,810	14%	6%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Other key takeaways from the result include:

- Operating costs have continued to rise (~14% qoq) at the Hengjaya and Ranger projects, primarily due to rising electricity costs and met coal prices (~117% increase in Indonesian thermal coal prices and ~109% increase in metallurgical coal prices over the September quarter). However, NIC increased its EBITDA margin due to its lower cost base, minimal exposure to shipping costs and exposure to nickel ore costs being offset by increased production from the Hengjaya Mine. NPI prices are currently being set by marginal producers in China, with cash costs of US$18,000-US$21,000/t. NIC's cash costs of US$10,400/t are in the bottom quartile of the cost curve;
- Construction of the Angel Nickel Project, within the Indonesia Weda Bay Industrial Park (IWIP) continued to make good progress during the quarter and is on track for commissioning early in 2HCY22. This is consistent with our forecasts, though we see upside risk to our conservative production ramp-up schedule;
- During the quarter NIC completed a US$150m 'tap' issuance of its existing Senior Unsecured Notes, for a total now of US$325m outstanding. The Notes carry an interest rate of 6.50%, maturing 1 April 2024. On 30 September 2021 NIC increased its ownership in Angel Nickel from 50% to 80% with the payment of an additional US$210m; and
- During the quarter, NIC signed a binding Memorandum of Agreement with PT Iriana Mutiara Mining for the staged acquisition of a 100% interest in the Siduarsi Nickel-Cobalt project in Papua province, Indonesia.

Changes to our forecasts

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

- Increased our Ni in NPI cash cost forecasts for 2HCY21 and into CY22, due to ongoing input cost increases. Our CY21 cash costs lift by 2%, to US$9,520/t Ni in NPI and our CY22 cash costs lift by 23% to US$9,796/t;
- Updated for the additional debt draw down of US$150m, via the 'tap' issuance of NIC's Senior Unsecured Notes. NIC has US$325m outstanding in Senior Unsecured Notes;
- Increased the operating cost assumptions we have applied to our risk-adjusted NPV valuation for the Angel Nickel Project. This allows for the input cost inflation we are seeing at the Hengjaya and Ranger Nickel Projects;
- Made an allowance for the commencement in the December 2021 quarter of limonite ore sales of ~150kt per quarter to the HPAL facility within the IMIP;
- Delayed our assumed compulsory divestment of NIC's ownership of the Hengjaya Nickel Mine, reflecting a law change that pushes back the divestment timeframe from 10years to 15 years;
- Updated for our latest commodity price and exchange rate forecasts, including a minor increase to our forecast nickel price, largely offset by a lower assumed NPI payability; and
- Rolled our model forward 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

Year end 31 December	Previous Dec-21	Dec-22	Dec-23	New Dec-21	Dec-22	Dec-23	Change Dec-21	Dec-22	Dec-23
Prices & currency									
Nickel price (US$/t)	17,759	17,967	18,629	18,323	18,519	18,629	3%	3%	0%
US$/A$	0.76	0.73	0.73	0.75	0.73	0.73	0%	0%	0%
Production & costs									
Ore mined (t)	1,866,794	1,800,000	1,800,000	2,035,486	2,000,000	2,000,000	9%	11%	11%
Nickel in ore (t)	33,366	32,400	32,400	36,062	36,000	36,000	8%	11%	11%
RKEF NPI production (t)	297,426	372,000	579,615	295,081	372,004	579,615	-1%	0%	0%
Contained nickel (t)	40,596	49,170	75,646	40,516	49,171	75,646	0%	0%	0%
Contained nickel (t, attributable)	32,476	39,336	60,517	32,413	39,336	60,517	0%	0%	0%
Cash costs (US$/t Ni)	9,363	7,986	8,092	9,521	9,796	8,738	2%	23%	8%
Earnings & valuation									
Revenue (consolidated, US$m)	611	798	1,269	624	801	1,269	2%	0%	0%
EBITDA (consolidated, US$m)	242	421	666	253	345	632	5%	-18%	-5%
EBITDA (attributable, US$m)	192	335	531	202	275	504	5%	-18%	-5%
NPAT (reported, attributable, US$m)	151	267	423	157	196	392	4%	-27%	-7%
EPS (reported) (Acps)	7.9	14.5	23.1	8.3	10.7	21.4	4%	-27%	-7%
PER (x)	12.9	7.0	4.4	12.4	9.6	4.8	(0.5)	2.6	0.4
EPS growth (%)	-4%	83%	59%	1%	29%	100%	4%	-54%	42%
DPS (Acps)	4	6	8	4	4	7	0%	-33%	-13%
Yield	3.9%	5.9%	7.8%	3.9%	3.9%	6.8%	0%	-2%	-1%
NPV (A$/sh)	1.37	1.50	1.95	1.14	1.39	1.80	-17%	-7%	-7%
Price Target (A$/sh)		1.50			1.39			-7%	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The main impact to our forecasts is the rolling forward of our assumed input cost prices (essentially power and met coal) into CY22, on the view that prices may remain elevated longer than initially expected. This results in cuts to earnings of 27%, partially offset by the successful ramp-up and increased revenues from the Hengjaya Mine. Our updated assumptions result in a 7% cut to our NPV-based, sum-of-the-parts valuation, to $1.39/sh.

With Angel Nickel likely to commence production ramp-up in mid-CY22 and, on our forecasts, nearly double NIC's attributable production in CY23, NIC offers excellent value at these levels. Upside to our updated price target is 35.6% and valuation multiples are low. NIC is trading on a CY21 P/E of 12.4x, in our view compelling value for an industrial style growth stock. Forward P/E's are even lower, at 9.6x and 4.8x for CY22 and CY23 respectively. NIC's dividend yield is also competitive, at 3.9% (unfranked).

Upcoming catalysts

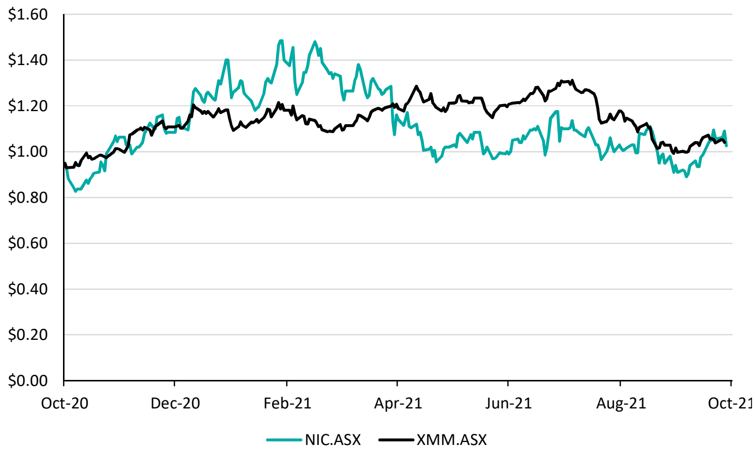
Upcoming catalysts for NIC include:

- 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), in which NIC now holds an 80% interest;
- 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;
- Exploration and development updates on the Siduarsi Nickel-Cobalt project in Papua province, Indonesia, in which NIC has recently acquired a 100% interest;
- The release of NIC's December 2021 quarterly production and cost report, expected in late January 2022; 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 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$1.39/sh (from $1.50/sh)

Earnings changes in this update are: CY21: +4%, CY22: -27% and CY23: -7%. The main driver is the extrapolation of higher input costs into CY22, partially offset by increased revenues from the Hengjaya Mine. Our NPV-based, sum-of-the-parts valuation is cut 7% to $1.39/sh. We retain our Buy recommendation on valuation metrics that look attractive for an aggressive growth stock.

Valuation: $1.39/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% in 2023) 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 $1.39/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 October 2021

Recommendation	Buy
Price	$1.025
Target (12 months)	$1.39

Table 3 - Financial summary

PROFIT AND LOSS

Year ending 31 Dec. (from 2020)	Unit	2019a*	2020a	2021e	2022e	2023e
Revenue	US$m	236.1	523.5	624.4	800.8	1,268.6
Expense	US$m	(138.9)	(329.0)	(371.3)	(456.3)	(636.8)
EBITDA	**US$m**	**97.2**	**194.5**	**253.1**	**344.5**	**631.8**
Depreciation	US$m	(16.4)	(36.8)	(36.7)	(53.6)	(68.6)
EBIT	US$m	80.8	157.7	216.4	290.9	563.2
Net interest expense	US$m	(2.1)	(4.7)	(10.8)	(20.4)	(6.1)
Unrealised gains (Impairments)	US$m	7.4	-	-	-	-
Other	US$m	5.4	1.6	-	-	-
PBT	**US$m**	**91.5**	**154.6**	**205.6**	**270.6**	**557.0**
Tax expense	US$m	(0.2)	(0.9)	(5.7)	(19.5)	(64.0)
Consolidated profit (loss) for the year	US$m	91.3	153.7	199.9	251.1	493.0
Non-Controlling Interest	US$m	34.8	43.1	43.1	55.3	100.8
Attributable NPAT (reported)	**US$m**	**56.5**	**110.6**	**156.8**	**195.8**	**392.2**
NPAT (underlying)	US$m	49.1	110.6	156.8	195.8	392.2

CASH FLOW

Year ending 31 Dec. (from 2020)	Unit	2019a*	2020a	2021e	2022e	2023e
OPERATING CASHFLOW						
Receipts	US$m	212.7	517.6	679.7	783.2	1,221.8
Payments	US$m	(169.9)	(358.9)	(318.8)	(435.0)	(591.7)
Tax	US$m	(4.7)	(9.1)	0.9	(5.7)	(19.5)
Net interest	US$m	0.1	0.3	(10.8)	(20.4)	(6.1)
Other	US$m	-	-	-	-	-
Operating cash flow	**US$m**	**38.2**	**150.0**	**351.0**	**322.1**	**604.5**
INVESTING CASHFLOW						
Property, plant and equipment	US$m	(29.6)	(7.4)	(557.9)	(10.9)	(11.7)
Mine development	US$m	-	(147.0)	-	-	-
Exploration & evaluation	US$m	-	-	(0.2)	(0.4)	(0.4)
Other	US$m	5.8	(30.0)	-	-	-
Investing cash flow	**US$m**	**(23.8)**	**(184.4)**	**(558.0)**	**(11.3)**	**(12.1)**
Free Cash Flow	*US$m*	*14.4*	*(34.5)*	*(207.0)*	*310.8*	*592.4*
FINANCING CASHFLOW						
Share issues/(buy-backs)	US$m	-	430.0	-	-	-
Debt proceeds	US$m	-	-	325.0	-	-
Debt repayments	US$m	(29.9)	(25.3)	(45.0)	-	(150.0)
Distributions to non-controlling interests	US$m	17.0	(43.3)	(39.7)	(43.6)	(62.4)
Dividends	US$m	-	(15.4)	(75.9)	(73.4)	(128.5)
Other	US$m	(0.4)	(12.4)	-	-	-
Financing cash flow	**US$m**	**(13.3)**	**333.6**	**164.4**	**(117.0)**	**(341.0)**
Change in cash	*US$m*	*1.1*	*299.2*	*(42.6)*	*193.7*	*251.5*

BALANCE SHEET

Year ending 31 Dec. (from 2020)	Unit	2019a*	2020a	2021e	2022e	2023e
ASSETS						
Cash & short term investments	US$m	49.8	351.4	308.9	502.6	754.0
Accounts receivable	US$m	97.2	117.8	62.4	80.1	126.9
Property, plant & equipment	US$m	628.5	600.8	1,130.2	1,087.5	1,030.6
Mine development expenditure	US$m	-	-	-	-	-
Exploration & evaluation	US$m	-	-	0.2	0.6	1.0
Other	US$m	122.0	164.7	164.7	164.7	164.7
Total assets	US$m	**897.5**	**1,234.7**	**1,666.3**	**1,835.4**	**2,077.2**
LIABILITIES						
Accounts payable	US$m	52.5	40.3	92.8	114.1	159.2
Income tax payable	US$m	0.7	3.8	5.7	19.5	64.0
Borrowings	US$m	65.0	45.0	337.9	337.9	187.9
Other	US$m	57.2	59.4	59.4	59.4	59.4
Total liabilities	US$m	**175.4**	**148.4**	**495.8**	**530.8**	**470.5**
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$m	92.8	187.9	268.8	391.2	654.8
Total equity to NIC holders	**US$m**	**427.5**	**940.1**	**1,020.9**	**1,143.3**	**1,407.0**
Non-controlling interest	US$m	294.7	146.2	149.6	161.3	199.7
Total equity	**US$m**	**722.1**	**1,086.2**	**1,170.5**	**1,304.6**	**1,606.6**
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$/sh**		**1.025**
Market capitalisation	A$m		2,577.9
Net cash	A$m		-312.3
Enterprise value (undiluted)	**A$m**		**2,890.2**
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$m		2,577.9
Net cash + options	A$m		-312.3
Enterprise value (diluted)	**A$m**		**2,890.2**

MAJOR SHAREHOLDERS

Shareholder	%	m
Shanghai Decent (SDI)	18.7%	469.7
Tanito Group (PT Karunia)	15.0%	378.4
BlackRock Investment Management	7.8%	195.5
Directors and Management	5.5%	137.9
Shanghai Wanlu	4.8%	121.3

FINANCIAL RATIOS

Year ending 31 Dec. (from 2020)	Unit	2019a*	2020a	2021e	2022e	2023e
VALUATION						
Attributable NPAT	US$m	56.5	110.6	156.8	195.8	392.2
Attributable NPAT	A$m	82.5	160.1	207.8	268.2	537.2
Reported EPS	Ac/sh	5.1	8.2	8.3	10.7	21.4
Adjusted EPS	Ac/sh	4.4	8.2	8.3	10.7	21.4
EPS growth	%	46%	62%	1%	29%	100%
PER [1]	x	10.1x	12.5x	12.4x	9.6x	4.8x
DPS	Ac/sh	-	3.0	4.0	4.0	7.0
Franking	%	0%	0%	0%	0%	0%
Yield	%	0.0%	2.9%	3.9%	3.9%	6.8%
FCF/share [1]	Ac/sh	2.6	(2.6)	(10.9)	16.9	32.3
FCF yield [1]	%	3%	-2%	-11%	17%	31%
P/FCFPS [1]	x	39.6x	-40.1x	-9.4x	6.1x	3.2x
EV/EBITDA [1]	x	22.3x	11.2x	8.6x	6.3x	3.4x
EBITDA margin	%	41%	37%	41%	43%	50%
EBIT margin	%	34%	30%	35%	36%	44%
Return on assets [1]	%	26%	17%	14%	14%	25%
Return on equity [1]	%	49%	27%	20%	23%	39%
LIQUIDITY & LEVERAGE						
Net debt (cash)	$m	15	(306)	29	(165)	(566)
ND / E	%	4%	-33%	3%	-14%	-40%
ND / (ND + E)	%	3%	-48%	3%	-17%	-67%
EBITDA / Interest	x	46.1x	40.9x	23.4x	16.9x	103.2x

ATTRIBUTABLE DATA - NICKEL MINES LTD

Year ending 31 Dec. (from 2020)	Unit	2019a*	2020a	2021e	2022e	2023e
Revenues	US$m	95.7	391.3	559.6	703.8	1,078.0
EBITDA	US$m	35.6	139.7	201.5	274.6	504.4
NPAT	US$m	56.5	110.6	156.8	195.8	392.2
Net distributable cash flow	US$m	1.0	269.3	(38.3)	174.4	226.3
EV/EBITDA	x	55.5	14.3	10.8	7.7	4.2
PER	x	20.3	12.5	12.4	9.6	4.8
P/FCF	x	nm	nm	nm	10.8	8.3

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	$8.31	$8.40	$8.45
Nickel	US$/t	$15,483	$13,775	$18,323	$18,519	$18,629
Currency						
AUD:USD		0.68	0.69	0.75	0.73	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	2,035,486	2,000,000	2,000,000
Ore grade	% Ni	1.9%	1.8%	1.8%	1.8%	1.8%
Nickel in ore	t Ni	8,178	14,479	36,062	36,000	36,000
Nickel in ore (attributable)	t Ni	6,542	11,583	28,849	28,800	28,800
RKEF (IMIP)						
NPI production	t	152,408	295,897	295,081	372,004	579,615
Contained nickel	t Ni	20,988	43,622	40,516	49,171	75,646
Contained nickel (attributable)	t Ni	11,742	30,619	32,413	39,336	60,517
Costs						
Cash costs	US$/t Ni	$7,689	$7,330	$9,521	$9,796	$8,738
All-in-Costs (AIC)	US$/t Ni	$7,804	$7,414	$9,627	$9,938	$8,866

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)	2,182.9	0.87	2,370.6	0.94	2,440.1	0.97
IWIP RKEF (NPV12)	966.0	0.38	1,120.9	0.45	1,865.1	0.74
Hengjaya Mine (NPV12)	36.4	0.01	41.2	0.02	65.2	0.03
Other exploration	42.0	0.02	42.0	0.02	42.0	0.02
Corporate overheads	(44.2)	(0.02)	(44.6)	(0.02)	(45.1)	(0.02)
Subtotal (EV)	3,183.0	1.27	3,530.1	1.40	4,367.3	1.74
Net cash (debt)	(312.3)	(0.12)	(29.0)	(0.01)	164.7	0.07
Total (undiluted)	**2,870.8**	**1.14**	**3,501.1**	**1.39**	**4,532.1**	**1.80**
Dilutive effect of options		-		-		-
Add cash from options	-	-	-	-	-	-
Total (diluted)	**2,870.8**	**1.14**	**3,501.1**	**1.39**	**4,532.1**	**1.80**

*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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