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Nickel Industries Ltd (NIC)

Margin and production leverage delivers

Recommendation

Buy (unchanged)

Price

\$0.745

Target (12 months)

\$1.80 (previously \$1.73)

GICS Sector

Materials

Expected Return

Capital growth	142%
Dividend yield	5%
Total expected return	147%

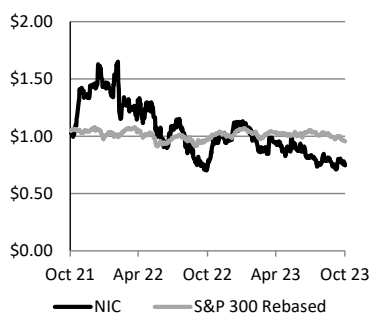
Company Data & Ratios

Enterprise value	\$2,907m
Market cap	\$3,193m
Issued capital	4,286m
Free float	54%
Avg. daily val. (52wk)	\$10.7m
12 month price range	\$0.71-\$1.17

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.74	0.83	0.71
Absolute (%)	0.7	-9.7	4.9
Rel market (%)	4.2	-1.2	5.8

Absolute Price



SOURCE: IRESS

September 2023 quarterly report

For the September quarter 2023, NIC produced 33,852t contained Ni (BPe 32,428t), with 26,692t attributable (BPe 25,642t). Cash costs were US\$10,198/t (BPe US\$11,968/t). These figures exclude 1,410t of Mixed Hydroxide Precipitate (MHP) production which commenced during the quarter. Production grew a further 7% qoq and is up 64% vs the pcp. Costs were lower at all operations on lower input cost prices and were the main driver of Rotary Kiln Electric Furnace (RKEF) production EBITDA lifting to US\$97.6m from US\$43.9m qoq. Combined with production growth from the Hengjaya Mine, where EBITDA lifted to US\$23.1m from US\$12.0m qoq, group EBITDA lifted to US\$120.7m (BPe US\$105m) from US\$55.9m qoq.

Strong performance across the board

This is an excellent result that beat our production and cost forecasts. Lower costs more than offset marginally lower prices received for reported EBITDA that comfortably beat our forecast. Price realisations improved over the quarter and margins at the Oracle RKEF line benefitted from lower power costs and its first quarter of full production to deliver the highest margins in the group. The US\$120.7m quarterly EBITDA equates to US\$97m (A\$147m) attributable to NIC. On an annualised basis this is A\$590m, implying an EV/EBITDA multiple for NIC of 4.9x, which we regard as an undemanding multiple for a high growth, long-life, fully funded nickel producer.

Investment thesis – Buy, TP\$1.80/sh (from Buy, \$1.73/sh)

EPS changes in this report are: CY23: +26%, CY24: 18%, CY25: 14%, on lower costs and higher production. NIC is one of the world's largest listed nickel producers and one of few that offers a diversified product mix providing exposure to both the stainless steel and lithium ion battery feedstock markets. It operates at the low end of the cost curve and has demonstrated its ability to make money through the cycle. Based on our forecasts it trades on EV/EBITDA multiples of 5.2x for CY23 and 4.2x for CY24 (attributable basis). Our NPV-based valuation lifts 4%, to \$1.80/sh. Retain buy.

Earnings Forecast

Year ending 31 December	2022a	2023e	2024e	2025e
Sales (US\$m)	1,217	1,919	2,158	2,442
EBITDA (US\$m)	348	430	544	714
Attributable NPAT (reported) (US\$m)	159	184	250	386
Attributable NPAT (reported) (A\$m)	228	277	368	552
EPS (adjusted) (Acps)	8.5	7.9	8.7	13.0
EPS growth (%)	17%	-7%	9%	50%
PER (x)	8.8	9.4	8.6	5.7
FCF Yield (%)	-26%	-10%	-13%	18%
EV/EBITDA (x, consolidated)	5.3	4.3	3.4	2.6
Dividend (Acps)	4.0	4.0	5.0	5.0
Yield (%)	5.4%	5.4%	6.7%	6.7%
Franking (%)	0%	0%	0%	0%
ROE (%)	18%	13%	13%	19%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Margin and production leverage delivers

September 2023 quarterly report

NIC released its September 2023 quarter report, announcing production and costs from its RKEF lines at the Hengjaya (HNI), Ranger (RNI), Angel (ANI) and Oracle (ONI) Nickel Projects at the Indonesia Morowali Industrial Park (IMIP) and Indonesia Weda Bay Industrial Park (IWIP) in Indonesia.

NIC produced 33,852t contained Ni (BPe 32,428t), with 26,692t attributable (BPe 25,642t). Cash costs were US\$10,198/t (BPe US\$11,968/t). These figures exclude 1,410t of MHP production which commenced during the quarter. Production grew a further 7% qoq and is up 64% vs the pcp.

Costs were lower at all operations on lower input cost prices and were the main driver of RKEF production EBITDA lifting to US\$97.6m from US\$43.9m qoq. Combined with production growth from the Hengjaya Mine, where EBITDA lifted to US\$23.1m from US\$12.0m qoq, group EBITDA lifted to US\$120.7m (BPe US\$105m) from US\$55.9m qoq.

Production ramped up above nameplate at ONI, with its dedicated power plant online for the first full quarter, enabling both higher production and lower costs. Production at ONI lifted 13% to 11,461t Ni in NPI, costs lowered 22% to US\$9,973/t and its EBITDA margin lifted from US\$744/t to US\$3,502/t.

Production at the Hengjaya Mine increased as mined volumes lifted to 3.6Mt from 2.7Mt qoq as the mine expansion and ramp-up continued. Sales volumes and prices were not disclosed in the current quarter but higher production, improved pricing and lower costs resulted in EBITDA of US\$23.1m. With the completion of the new haul road, running direct to the IMIP, we anticipate sales volumes to increase to ~10Mtpa, from the current run-rate of ~5-6Mtpa and driving a commensurate increase in EBITDA generation.

During the quarter NIC completed its acquisition of a 10% interest in the Huayue Nickel Cobalt (HNC) HPAL project. First attributable production of 1,410t MHP was reported but has not yet been incorporated into NIC's quarterly financial update. This marks an important further diversification into the EV and battery market.

Table 1 - NIC quarterly production summary

	Sep-22 Actual	Dec-22 Actual	Mar-23 Actual	Jun-23 Actual	Sep-23 Actual	Sep-23 BP est.	Variance qoq %	Variance vs BPe %
RKEF nickel production								
Contained nickel (t)	20,275	23,072	26,665	32,558	33,852	32,428	4%	4%
Contained nickel (t, attributable)	16,220	18,329	21,332	25,032	26,692	25,642	7%	4%
Costs								
Cash costs (US\$/t Ni)	\$13,597	\$13,053	\$13,801	\$12,060	\$10,198	\$11,968	-15%	-15%
All-In-Cost (US\$/t Ni)	\$13,682	\$13,181	\$13,882	\$12,275	\$10,304	\$12,045	-16%	-14%
Hengjaya Mine								
Ore sales (t)	750,895	1,126,446	790,227	905,361	1,480,000*	1,350,000	63%	10%
grade (% Ni)	1.73%	1.67%	1.57%	1.57%	1.57%*	1.45%	0.0%	8.3%
Contained nickel (t Ni)	9,785	12,116	10,630	10,836	15,386*	13,775	42%	12%
Mine OPEX (US\$/t)	\$26.91	\$28.47	\$28.75	\$31.34	\$25.70*	\$23.00	-18%	12%
Avg price received (US\$/t)	\$42.88	\$42.48	\$44.56	\$40.62	\$40.62*	\$37.00	0%	10%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES * NOT DISCLOSED, BP ESTIMATES ONLY

NIC reported an average realised nickel price of US\$13,343/t Ni (from US\$13,810/t qoq), approximating 66% of our estimated average LME nickel price for the quarter of US\$20,352/t (up from 62% qoq).

Cash and receivables rose to US\$1,085.8m from US\$642.1m, including cash of US\$827.6m (from US\$363.1m qoq). This followed the completion of A\$942.7m share placement with United Tractors at A\$1.10 per share for 19.99% interest in NIC. NIC has debt of US\$550m.

Changes to our forecasts

With this update, in addition to updating for the reported quarterly production and cost performance, we have made the following changes to our forecasts:

- Increased our forecast RKEF production, specifically driven by a stronger than modelled ramp-up at the ONI plant;
- Lowered our forecast operating costs, reflecting both lower input costs and the actual reported costs from fully ramped up production across all the RKEF lines;
- Trimmed our forecast price realisations for NIC's NPI and nickel matte production. While these improved over the quarter, they remained slightly below our forecasts;
- Updated for our latest commodity price and exchange rate forecasts; and
- Updated for NIC's latest capital structure, last disclosed cash and debt position and rolled our model forward.

The net impacts of these changes are summarised in the table below:

Table 2 - Changes to our CY forecasts									
Year end 31 December	Previous			New			Change		
	Dec-23	Dec-24	Dec-25	Dec-23	Dec-24	Dec-25	Dec-23	Dec-24	Dec-25
Prices & currency									
Nickel price (US\$/t)	22,904	20,393	22,080	22,591	20,393	22,080	-1%	0%	0%
US\$/A\$	0.68	0.70	0.70	0.66	0.68	0.70	-2%	-3%	0%
Production & costs									
Ore mined (t)	4,970,588	9,100,000	9,100,000	5,100,588	9,100,000	9,100,000	3%	0%	0%
Nickel in ore (t)	51,553	65,250	65,250	53,164	65,250	65,250	3%	0%	0%
RKEF NPI production (t)	954,297	1,027,615	1,024,615	966,529	1,044,615	1,044,615	1%	2%	2%
Contained nickel (t)	158,559	198,318	197,400	157,718	200,540	200,000	-1%	1%	1%
Contained nickel (t, attributable)	102,033	111,054	110,320	103,389	112,832	112,400	1%	2%	2%
Cash costs (US\$/t Ni)	12,454	12,919	13,392	11,627	11,784	12,518	-7%	-9%	-7%
Earnings & valuation									
Revenue (consolidated, US\$m)	1,960	2,243	2,462	1,919	2,158	2,442	-2%	-4%	-1%
EBITDA (consolidated, US\$m)	383	504	653	430	544	714	12%	8%	9%
EBITDA (attributable, US\$m)	331	435	566	370	470	619	12%	8%	9%
NPAT (reported, attributable, US\$m)	150	218	338	184	250	386	23%	15%	14%
EPS (reported) (Acps)	6.3	7.3	11.4	7.9	8.7	13.0	26%	18%	14%
PER (x)	11.8	10.2	6.6	9.4	8.6	5.7	(2.5)	(1.6)	(0.8)
EPS growth (%)	-26%	17%	55%	-7%	9%	50%	19%	-8%	-5%
DPS (Acps)	4.0	4.0	5.0	4.0	5.0	5.0	0%	25%	0%
Yield	5.4%	5.4%	6.7%	5.4%	6.7%	6.7%	0%	1%	0%
NPV (A\$/sh)	1.47	1.73	1.67	1.53	1.80	1.80	4%	4%	8%
Price Target (A\$/sh)		1.73			1.80			4%	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

NIC continues to trade on an undemanding EV/EBITDA multiple of 5.2x for CY23 and 4.2x for CY24 (attributable basis) for a company that is delivering aggressive production growth. NIC's increasing production base is highly sensitive to margin expansion and we see significant potential upside in favourable market conditions.

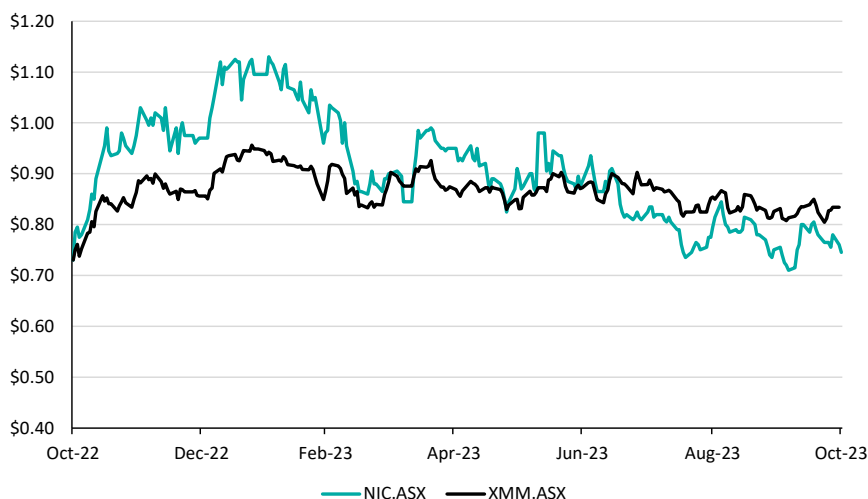
Upcoming catalysts

Upcoming catalysts for NIC include:

- Updates on Nickel Pig Iron (NPI) pricing and market outlook – key near-term earnings and cash flow drivers for NIC;
- Ongoing sales of nickel matte production and associated payabilities, giving NIC exposure to the Class 1 nickel market;
- The commencement of MHP production costs, margins and sales into the Class 1 nickel market from the low carbon intensity HNC HPAL operation, likely in the December 2023 quarter;
- Shareholder approval of the investment in the ENC HPAL project, scheduled for November 2023;
- The release of the December 2023 quarterly report, expected in late January;
- Progress updates for the Hengjaya Mine, where production ramp-up of limonite nickel ore sales are increasing in 2HCY23 following the completion of the new haul road; and
- Exploration and development updates on the Siduarsi Nickel-Cobalt project in Papua province, Indonesia, for which a maiden Resource is planned by end CY23.

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 Industries Limited (NIC)

Company description: fully integrated NPI producer

Nickel Industries Limited ('Nickel Industries' or 'NIC') was formed in 2007 and listed on the ASX in 2018 as Nickel Mines Ltd. Its operations are focused in 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), an 80% interest in the Oracle Nickel Project, comprising four new generation RKEF NPI production lines, a 10% interest in the Huayue Nickel Cobalt (HNC) HPAL project and a 55% interest in the Excelsior Nickel Cobalt (ENC) HPAL project which is under construction. All these projects are within the Indonesia Morowali Industrial Park (IMIP), a fully integrated stainless steel production facility in Central Sulawesi, Indonesia and in partnership with Shanghai Decent Investments (SDI) a subsidiary of Tsingshan Group, the world's largest stainless steel producer.

NIC also holds an 80% interest in the Angel Nickel Project, comprising four new generation RKEF NPI production lines currently in production 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, in close proximity to the IMIP. The HM produces Direct Shipping Ore (DSO), the bulk of which is sold into the IMIP facility.

Investment thesis – Buy, TP\$1.80/sh (from Buy, \$1.73/sh)

EPS changes in this report are: CY23: +26%, CY24: 18%, CY25: 14%, on lower costs and higher production. NIC is one of the world's largest listed nickel producers and one of few that offers a diversified product mix providing exposure to both the stainless steel and lithium ion battery feedstock markets. It operates at the low end of the cost curve and has demonstrated its ability to make money through the cycle. Based on our forecasts it trades on EV/EBITDA multiples of 5.2x for CY23 and 4.2x for CY24 (attributable basis). Our NPV-based valuation lifts 4%, to \$1.80/sh. Retain buy.

Valuation: \$1.80/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 2028) in the Hengjaya laterite nickel ore mine.

We also include a risk-adjusted, NPV-based valuation for NIC's 80% interest in the Angel Nickel Industry (ANI) project, its 80% interest in the Oracle Nickel Project (ONI), its 10% interest in the HNC HPAL plant and 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 \$1.80/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.
- **Geopolitical risks:** Mining companies' assets are subject to geopolitical risks, arising from events in, and outside, the jurisdictions they operate in.
- **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. A mitigating factor in this respect has been the +20% holding in NIC equity.

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.

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