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## Nickel Mines Ltd (NIC)

### Value accretive growth plan laid out

**Recommendation**

**Buy** (unchanged)

**Price**

**\$0.92**

**Target (12 months)**

**\$1.52** (previously \$1.04)

**GICS Sector**

**Materials**

**Expected Return**

Capital growth	<b>65.2%</b>
Dividend yield	<b>2.2%</b>
Total expected return	<b>67.4%</b>

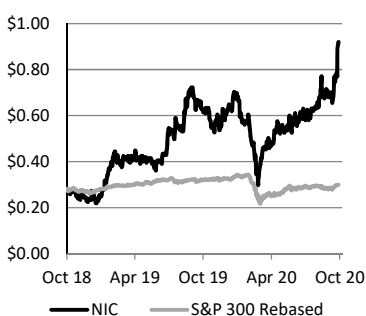
**Company Data & Ratios**

Enterprise value	<b>\$1,907m</b>
Market cap	<b>\$1,958m</b>
Issued capital	<b>2,128m</b>
Free float	<b>76%</b>
Avg. daily val. (52wk)	<b>\$4.2m</b>
12 month price range	<b>\$0.29-\$0.93</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	0.71	0.59	0.65
Absolute (%)	30.5	57.3	40.8
Rel market (%)	24.8	52.0	46.9

**Absolute Price**



SOURCE: IRESS

**MOU to acquire 70% of 4 new RKEF lines**

NIC has signed a Memorandum of Understanding (MoU) with Shanghai Decent Investment (SDI) to build, own and operate 4 next-generation rotary-kiln-electric-furnace (RKEF) lines within the Indonesia Weda Bay Industrial Park (IWIP). The MOU outlines the terms under which NIC can acquire a 70% interest in PT Angel Nickel Industry (ANI), a new nickel development comprising four next-generation RKEF lines with a nameplate capacity of 36,000tpa Ni in NPI. This would imply exposure to an additional 25,200tpa Ni in NPI for NIC. Under the terms of the MoU, NIC will acquire a 70% interest in ANI for US\$490m. NIC will require external funding to complete the acquisition, to be sourced from a combination of cash reserves, debt and equity. The ANI RKEF lines are scheduled to commence commissioning in 3QCY22.

**Great value, aggressive growth**

NIC has consistently referenced the potential for acquiring additional interests in RKEF production lines in collaboration with SDI. We have viewed it as a highly attractive growth option, given the low capital intensity of the existing RKEF lines and the value creation demonstrated since NIC's initial acquisitions in 2018. In our view, the confirmation of the planned acquisition is very positive, driven by attractive valuation metrics, the potential for aggressive earnings growth (CY23e of ~US\$400m, up 280% from CY20e of US\$105m), a rapid payback period that we estimate to be <3.0 years and the resultant positioning of NIC as one of the world's largest pure play nickel producers, with production to grow from ~33-35ktpa Ni in NPI currently, to ~60ktpa in CY23. In addition to this we see upside potential from our base case assumptions.

**Investment thesis – Buy, TP\$1.52/sh (from Buy, \$1.04/sh)**

Our valuation of NIC's planned acquisition of a 70% interest in the new ANI RKEF lines is the primary driver of a 46% increase to our Target Price, adding A\$690m (A\$0.32/sh) to our valuation. It also benefits from the adoption of a lower discount rate and incrementally from our latest commodity price forecasts. Our NPV-based valuation lifts by 46%, to \$1.52/sh. With no material changes to our production and cost forecasts our A\$ EPS changes are +3% in CY20 and -1% in CY21. Buy retained.

**Earnings Forecast**

Year ending 31 December	2019a*	2020e	2021e	2022e
Sales (US\$m)	236	530	631	634
EBITDA (US\$m)	97	203	328	338
Attributable NPAT (reported) (US\$m)	57	105	230	249
Attributable NPAT (reported) (A\$m)	83	154	328	346
EPS (adjusted) (Acps)	4.4	8.7	15.4	16.2
EPS growth (%)	46%	26%	76%	5%
PER (x) 1	9.1	10.5	6.0	5.7
FCF Yield (%) 1	3%	12%	23%	24%
EV/EBITDA (x) 1	13.9	6.6	4.1	4.0
Dividend (Acps)	-	2	2	2
Yield (%)	0%	2%	2%	2%
Franking (%)	0%	0%	0%	0%
ROE (%) 1	49%	33%	38%	32%

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

# Value accretive growth plan laid out

## MOU to acquire 70% of 4 new RKEF lines

NIC has signed a Memorandum of Understanding (MoU) with Shanghai Decent Investment (SDI) to build, own and operate 4 next-generation rotary-kiln-electric-furnace (RKEF) lines within the Indonesia Weda Bay Industrial Park (IWIP). SDI is NIC's major shareholder (18.6%), its partner at NIC's existing RKEF lines and a subsidiary of Tsingshan, the world's largest stainless steel producer.

The MOU outlines the terms under which NIC can acquire a 70% interest in PT Angel Nickel Industry (ANI), a new nickel development project within the IWIP located on Halmahera Island in Indonesia. The ANI project will comprise four next-generation RKEF lines with a nameplate capacity of 36,000tpa Ni in NPI, implying exposure to an additional 25,200tpa Ni in NPI for NIC.

Under the terms of the MoU, NIC will acquire a 70% interest in ANI for US\$490m in two staged payments of US\$210m by the end of 1QCY21 to secure an initial 30% interest and US\$280m by the end of 4QCY21 to secure a further 40% interest. Deposits of US\$10m (paid upon signing of the MoU) and US\$20m (paid upon execution of a Definitive Agreement) will be offset against the first stage payment. NIC has stated its cash consideration will be funded from a combination of cash reserves, debt and equity.

The IWIP has been established and already has four commissioned RKEF lines with a further eight under construction as part of Tsingshan's strategy of shifting its NPI production from China to lower cost operations close to the source of the raw materials in Indonesia. The ANI RKEF lines are scheduled to commence commissioning in 3QCY22.

## Great value, aggressive growth

NIC has consistently referenced the potential for acquiring additional interests in RKEF production lines in collaboration with SDI (Tsingshan). We have always viewed it as a highly attractive growth option, given the low capital intensity of the existing RKEF lines and the value creation demonstrated since NIC's initial acquisitions in 2018. In terms of competing for NIC's growth capital, these options are hard to beat. In our view, the confirmation of the planned acquisition and further growth of NIC's production base is a very positive announcement. We expect this to be a highly value accretive acquisition that marks out a clear, capital efficient growth pathway for NIC in a market where its peers are facing stable or declining production.

The key positives of the planned acquisition, in our view, include:

- **Attractive valuation metrics:** we calculate the ANI acquisition is priced at ~US\$19,400/t annual Ni in NPI production (being the capital intensity based on nameplate capacity). This includes the 380MW power station and compares favourably to US\$20,000/t paid by NIC for the most recent Hengjaya (HNI) and Ranger (RNI) acquisitions;
- The completion of the acquisition would drive **aggressive earnings growth**, leading to attributable earnings of ~US\$400m in CY23 (prior to allowing for tax concessions), up 280% from CY20e of US\$105m;
- That the deal would firmly establish NIC as **one of the largest pure nickel exposures globally**, with production estimated to grow from ~33-35ktpa Ni in NPI currently, to ~60ktpa once the ANI project is ramped up to nameplate production rates;
- A **rapid payback period that we estimate to be <3.0 years** against NIC's US\$490m (A\$700m) investment; and

- The HNI and RNI operations have **demonstrated an excellent track record** from construction, through the commissioning stages and then consistently exceeding nameplate production (by >40% over the last four quarters on our calculations) – mitigating the risk of further acquisitions.

### Upside potential

In addition to this we see upside potential from our base case assumptions, with opportunities for:

- Production to be above the 36ktpa Ni in NPI nameplate. Allowing for outperformance of 30%, this would imply a production rate attributable to NIC of 66ktpa Ni in NPI;
- Our valuation makes no allowance for the regulated tax concessions (first 7 years 0% corporate income tax rate), for which both HNI and RNI operations qualified; and
- Lower operating costs flowing from ownership of the 380MW power station planned for the IWIP, optimised and larger scale RKEF lines (compared with the HNI and RNI projects at the IMIP) and potentially lower shipping costs due to the IWIP's location, adjacent to one of the world's largest known laterite nickel deposits.

### Funding

On our current forecasts NIC will require funding from external sources to complete the ANI acquisition. NIC has stated it will be funded from a combination of cash reserves, debt and equity. There has been no indication of SDI's participation (or not), but in our view it is likely to at least maintain its current level of ownership. NIC will be attractive to both equity and debt providers. NIC currently has very low gearing levels (US\$55m as at 30 June 2020, or 0.37x CY20e EBITDA and is currently net cash) and the long-life, low-cost nature of the assets are, in our view, amenable to low cost debt funding. Demonstrated high returns on equity are also attractive. We believe NIC will be able to put together a competitive funding package for the acquisition.

### Changes to our forecasts

We make no changes to our underlying production and cost assumptions for NIC's existing operations at the IMIP, but following the announcement of the MOU we make the following changes to our modelled assumptions:

- Include a provisional valuation of A\$690m (~A\$0.32/sh) for the planned acquisition of the 70% interest in the 4 new, next-generation RKEF lines at the IWIP. The valuation is based upon a risk-adjusted (75% x full value) DCF of NIC's interest in the 36ktpa Ni in NPI production from these lines;
- In line with the rest of our coverage we have lowered our discount rate on the basis of a lower risk-free rate. In the case of NIC this results in our discount rate being lowered from 14% (nominal) to 12% (nominal);
- Extended our dividend forecast forward, reflecting the funding flexibility for NIC's planned growth, which we believe will not preclude the payment of a dividend, as well as the quantum and timing of the planned acquisition, which we believe NIC can afford while maintaining its dividend payment; and
- Updated for our latest commodity price and foreign exchange rate forecasts, which include incremental increases to our CY20e nickel price and CY20 and CY21 AUD:USD exchange rate.

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

Table 1 - Changes to our CY forecasts

Year end 30 December	Previous			New			Change		
	Dec-20	Dec-21	Dec-22	Dec-20	Dec-21	Dec-22	Dec-20	Dec-21	Dec-22
<b>Prices &amp; currency</b>									
Nickel price (US\$/t)	13,393	16,424	17,527	13,532	16,424	17,527	1%	0%	0%
US\$/A\$	0.67	0.69	0.72	0.68	0.70	0.72	2%	1%	0%
<b>Production &amp; costs</b>									
Ore mined (t)	799,628	1,560,000	1,560,000	799,628	1,560,000	1,560,000	0%	0%	0%
Nickel in ore (t)	14,440	28,080	28,080	14,440	28,080	28,080	0%	0%	0%
RKEF NPI production (t)	301,308	304,615	304,615	301,308	304,615	304,615	0%	0%	0%
Contained nickel (t)	42,718	41,123	38,077	42,718	41,123	38,077	0%	0%	0%
Contained nickel (t, attributable)	29,896	32,898	30,462	29,896	32,898	30,462	0%	0%	0%
Cash costs (US\$/t Ni)	7,424	7,664	7,962	7,424	7,664	7,962	0%	0%	0%
<b>Earnings &amp; valuation</b>									
Revenue (consolidated, US\$m)	524	631	634	530	631	634	1%	0%	0%
Revenue (attributable, US\$m)	391	532	531	396	532	531	1%	0%	0%
EBITDA (attributable, US\$m)	143	258	268	148	258	268	4%	0%	0%
NPAT (reported, attributable, US\$m)	100	230	250	105	230	249	5%	0%	0%
EPS (reported) (Acps)	8.5	15.7	16.3	8.7	15.4	16.2	3%	-1%	0%
PER (x)	10.8	5.9	5.6	10.5	6.0	5.7	(0.3)	0.1	0.0
EPS growth (%)	23%	84%	4%	26%	76%	5%	4%	-8%	1%
DPS (Acps)	2	-	-	2	2	2	0%	na	na
Yield	2%	0%	0%	2%	2%	2%	0%	2%	2%
NPV (A\$/sh)	1.04	1.26	1.38	1.52	1.73	1.84	46%	38%	33%
<b>Price Target (A\$/sh)</b>	1.04			1.52			46%		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Our valuation of NIC's planned acquisition of a 70% interest in the new ANI RKEF lines is the primary driver of a 46% increase to our Target Price, adding A\$690m (A\$0.32/sh) to our valuation. The adoption of a lower discount rate (12% down from 14%, nominal), together with a marginally higher Ni price forecast (partially offset by a higher exchange rate) lifts our Target Price a further A\$350m (A\$0.16/sh). With no material changes to our production and cost forecasts, the higher nickel price and exchange rate result in only minor changes to our A\$ EPS forecast of +3% in CY20 and -1% in CY21. We have not yet formally incorporated production from the ANI lines into our forecasts, which is targeted for CY23. Our NPV-based, sum-of-the-parts valuation lifts by 46%, to \$1.52/sh.

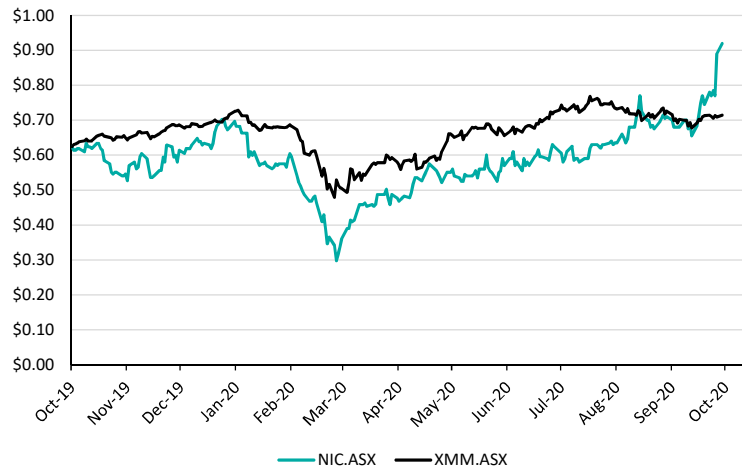
## Upcoming catalysts

Upcoming catalysts for NIC include:

- The release of NIC's September 2020 quarterly production and cost report, expected in late October 2020;
- The execution of a binding Definitive Agreement and shareholder approval, to which the transaction is conditional;
- Ongoing production updates from the Hengjaya and Ranger Nickel RKEF lines. Both projects have now achieved established production levels 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;
- Progress updates for the Hengjaya Mine, where a major production expansion is underway, targeting production of 150kt ore per month and costs of ~US\$18/t 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') was formed in 2007 and listed on the ASX in 2018. 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. In June 2020, NIC exercised its option to increase its ownership of both Hengjaya and Ranger to 80%, for US\$120m, becoming effective 1 July 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, TP\$1.52/sh (from Buy, \$1.04/sh)

Our valuation of NIC's planned acquisition of a 70% interest in the new ANI RKEF lines is the primary driver of a 46% increase to our Target Price, adding A\$690m (A\$0.32/sh) to our valuation. It also benefits from the adoption of a lower discount rate and incrementally from our latest commodity price forecasts. Our NPV-based valuation lifts by 46%, to \$1.52/sh. With no material changes to our production and cost forecasts our A\$ EPS changes are +3% in CY20 and -1% in CY21. Buy retained.

## Valuation: \$1.52/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 70% 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 \$1.52/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 19 October 2020

Recommendation

Buy

Price

\$0.92

Target (12 months)

\$1.52

Table 2 - Financial summary

PROFIT AND LOSS						FINANCIAL RATIOS								
Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e	Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e	
<b>REVENUE</b>						<b>VALUATION</b>								
Revenue	US\$m	64.9	236.1	530.5	631.1	633.8	Attributable NPAT	US\$m	65.5	56.5	105.2	229.7	248.8	
Expense	US\$m	(44.5)	(138.9)	(327.1)	(303.5)	(295.4)	Attributable NPAT	A\$m	91.6	82.5	154.1	328.1	345.6	
<b>EBITDA</b>	<b>US\$m</b>	<b>20.4</b>	<b>97.2</b>	<b>203.4</b>	<b>327.5</b>	<b>338.4</b>	Reported EPS	Ac/sh	6.9	5.1	8.7	15.4	16.2	
Depreciation	US\$m	(6.8)	(16.4)	(36.1)	(36.4)	(34.2)	Adjusted EPS	Ac/sh	0.9	4.4	8.7	15.4	16.2	
EBIT	US\$m	13.6	80.8	167.3	291.1	304.2	EPS growth	%	nm	46%	26%	76%	5%	
Net interest expense	US\$m	0.2	(2.1)	(3.7)	2.5	9.4	PER <sup>1</sup>	x	13.3x	9.1x	10.5x	6.0x	5.7x	
Unrealised gains (Impairments)	US\$m	57.3	7.4	-	-	-	DPS	Ac/sh	-	-	2.0	2.0	2.0	
Other	US\$m	0.7	5.4	(11.3)	-	-	Franking	%	0%	0%	0%	0%	0%	
<b>PBT</b>	<b>US\$m</b>	<b>71.9</b>	<b>91.5</b>	<b>152.3</b>	<b>293.6</b>	<b>313.6</b>	Yield	%	0%	0%	2%	2%	2%	
Tax expense	US\$m	(0.1)	(0.2)	(0.4)	(3.5)	(2.7)	FCF/share <sup>1</sup>	Ac/sh	(14.4)	2.6	10.6	20.8	22.1	
Consolidated profit (loss) for the year	US\$m	71.8	91.3	151.9	290.2	310.9	FCF yield <sup>1</sup>	%	-16%	3%	12%	23%	24%	
Non-Controlling Interest	US\$m	6.3	34.8	46.6	60.5	62.1	P/FCF <sup>1</sup>	x	-6.4x	35.6x	8.6x	4.4x	4.2x	
<b>Attributable NPAT (reported)</b>	<b>US\$m</b>	<b>65.5</b>	<b>56.5</b>	<b>105.2</b>	<b>229.7</b>	<b>248.8</b>	EV/EBITDA <sup>1</sup>	x	66.1x	13.9x	6.6x	4.1x	4.0x	
NPAT (underlying)	US\$m	8.2	49.1	105.2	229.7	248.8	EBITDA margin	%	31%	41%	38%	52%	53%	
							EBIT margin	%	21%	34%	32%	46%	48%	
							Return on assets <sup>1</sup>	%	23%	26%	18%	24%	22%	
							Return on equity <sup>1</sup>	%	37%	49%	33%	38%	32%	
<b>CASH FLOW</b>						<b>LIQUIDITY &amp; LEVERAGE</b>								
Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e	Net debt (cash)	\$m	(45)	15	(182)	(406)	(654)	
<b>OPERATING CASHFLOW</b>						ND / E								
Receipts	US\$m	33.4	212.7	574.6	621.0	633.6	ND / (ND + E)	%	-17%	3%	-38%	-90%	-156%	
Payments	US\$m	(28.4)	(169.9)	(297.8)	(309.4)	(297.5)	EBITDA / Interest	x	nm	46.1x	55.5x	nm	nm	
Tax	US\$m	(1.2)	(4.7)	0.1	(0.4)	(3.5)	<b>ATTRIBUTABLE DATA - NICKEL MINES LTD</b>							
Net interest	US\$m	0.2	0.1	(3.7)	2.5	9.4	Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e	
Other	US\$m	-	-	(3.7)	-	-	Revenues	US\$m	52.0	156.1	396.2	532.2	531.2	
<b>Operating cash flow</b>	<b>US\$m</b>	<b>4.1</b>	<b>38.2</b>	<b>269.5</b>	<b>313.7</b>	<b>342.0</b>	EBITDA	US\$m	13.5	57.1	148.1	257.9	268.5	
<b>INVESTING CASHFLOW</b>						NPAT								
Property, plant and equipment	US\$m	(19.5)	(29.6)	(131.0)	(2.9)	(2.9)	Net distributable cash flow	US\$m	65.5	56.5	105.2	229.7	248.8	
Mine development	US\$m	-	-	(0.4)	(0.4)	(0.4)	EV/EBITDA	x	101.0	22.9	8.8	5.2	5.1	
Exploration & evaluation	US\$m	(121.1)	5.8	(10.0)	-	-	PER	x	13.3	18.2	10.5	6.0	5.7	
Other	US\$m	-	-	-	-	-	P/FCF	x	nm	nm	nm	7.5	6.9	
<b>Investing cash flow</b>	<b>US\$m</b>	<b>(140.6)</b>	<b>(23.8)</b>	<b>(141.4)</b>	<b>(3.3)</b>	<b>(3.3)</b>	<b>ORE RESERVE AND MINERAL RESOURCE</b>							
Free Cash Flow	US\$m	(136.5)	14.4	128.1	310.4	338.7	<b>Hengjaya Nickel Mine (HM)</b>			<b>Mdmt</b>	<b>% Ni</b>	<b>t Ni</b>		
<b>FINANCING CASHFLOW</b>						Measured						0.700	1.80%	12.600
Share issues/(buy-backs)	US\$m	183.6	-	152.2	-	-	<b>Mineral Resources</b>			15.000	1.90%	285.000		
Debt proceeds	US\$m	-	-	-	-	-	Indicated			22.000	1.80%	396.000		
Debt repayments	US\$m	(2.0)	(29.9)	(20.0)	(21.3)	(21.3)	Inferred			38.000	1.80%	678.000		
Distributions to non-controlling interests	US\$m	15.0	17.0	(46.9)	(56.5)	(59.7)	<b>ASSUMPTIONS - Prices</b>							
Dividends	US\$m	-	-	(29.1)	(29.8)	(30.6)	Year ending 31 Dec. (from 2020) avg	Unit	2019a	2019a*	2020e	2021e	2022e	
Other	US\$m	(10.8)	(0.4)	(7.6)	-	-	Nickel	US\$/lb	\$5.60	\$7.02	\$6.14	\$7.45	\$7.95	
<b>Financing cash flow</b>	<b>US\$m</b>	<b>185.8</b>	<b>(13.3)</b>	<b>48.6</b>	<b>(107.6)</b>	<b>(111.7)</b>	Nickel	US\$/t	\$12,343	\$15,483	\$13,532	\$16,424	\$17,527	
Change in cash	US\$m	49.3	1.1	176.7	202.8	227.0	Currency							
							AUD:USD		0.72	0.68	0.68	0.70	0.72	
<b>BALANCE SHEET</b>						<b>ASSUMPTIONS - Production &amp; costs</b>								
Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e	Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e	
<b>ASSETS</b>						<b>Hengjaya Mine</b>								
Cash & short term investments	US\$m	49.0	49.8	226.5	429.3	656.3	Ore mined	wmt	484,268	428,382	799,628	1,560,000	1,560,000	
Accounts receivable	US\$m	43.7	97.2	53.0	63.1	63.4	Ore grade	% Ni	2.0%	1.9%	1.8%	1.8%	1.8%	
Property, plant & equipment	US\$m	340.1	628.5	733.4	699.9	668.6	Nickel in ore	t Ni	5,977	8,178	14,440	28,080	28,080	
Mine development expenditure	US\$m	-	-	-	-	-	Nickel in ore (attributable)	t Ni	4,782	6,542	11,552	17,199	14,742	
Exploration & evaluation	US\$m	-	-	0.4	0.8	1.2	<b>RKEF (IMIP)</b>							
Other	US\$m	99.2	122.0	122.0	122.0	122.0	NPI production	t	42,106	152,408	301,308	304,615	304,615	
<b>Total assets</b>	<b>US\$m</b>	<b>531.9</b>	<b>897.5</b>	<b>1,135.4</b>	<b>1,315.1</b>	<b>1,511.5</b>	Contained nickel	t Ni	5,788	20,988	42,718	41,123	38,077	
<b>LIABILITIES</b>						Contained nickel (attributable)								
Accounts payable	US\$m	42.2	52.5	81.8	75.9	73.9	<b>Costs</b>							
Income tax payable	US\$m	0.3	0.7	0.4	3.5	2.7	Cash costs	US\$/t Ni	\$7,710	\$7,689	\$7,424	\$7,664	\$7,962	
Borrowings	US\$m	4.2	65.0	45.0	23.7	2.3	All-in-Costs (AIC)	US\$/t Ni	\$8,125	\$7,804	\$7,536	\$7,785	\$8,095	
Other	US\$m	30.4	57.2	58.0	58.0	58.0	<b>VALUATION</b>							
Total liabilities	US\$m	77.2	175.4	185.2	161.0	136.8	<b>Ordinary shares (m)</b>	<i>includes underwritten retail entitlement</i>					<b>2,128.1</b>	
<b>SHAREHOLDER'S EQUITY</b>						<b>Options in the money (m)</b>						<b>-</b>		
Share capital	US\$m	275.9	315.5	467.7	467.7	467.7	<b>Total shares diluted (m)</b>						<b>2,128.1</b>	
Reserves	US\$m	(0.6)	19.2	19.2	19.2	19.2	<b>Valuation</b>	<b>Now</b>	<b>+12 months</b>	<b>+24 mths</b>				
Retained earnings	US\$m	36.3	92.8	168.9	368.8	587.0	<b>Sum-of-the-parts</b>	<b>A\$m</b>	<b>A\$/sh</b>	<b>A\$m</b>	<b>A\$/sh</b>	<b>A\$m</b>	<b>A\$/sh</b>	
<b>Total equity to NIC holders</b>	<b>US\$m</b>	<b>311.6</b>	<b>427.5</b>	<b>655.8</b>	<b>855.7</b>	<b>1,073.9</b>	RKEF (NPV12)	2,086.6	0.98	2,362.7	1.11	2,557.3	1.20	
Non-controlling interest	US\$m	143.2	294.7	294.4	298.4	300.8	Hengjaya Mine (NPV12)	48.5	0.02	54.9	0.03	72.2	0.03	
<b>Total equity</b>	<b>US\$m</b>	<b>454.8</b>	<b>722.1</b>	<b>950.2</b>	<b>1,154.1</b>	<b>1,374.7</b>	Other exploration	690.0	0.32	690.0	0.32	690.0	0.32	
Weighted average shares	m	1,324.4	1,631.2	1,761.6	2,128.1	2,128.1	Corporate overheads	(38.8)	(0.02)	(46.0)	(0.02)	(46.5)	(0.02)	
<b>CAPITAL STRUCTURE</b>						<b>Subtotal (EV)</b>								
Shares on issue	m					2,128.1	Net cash (debt)	51.1	0.02	181.5	0.09	405.6	0.19	
<b>Total shares on issue</b>	<b>m</b>	<b>(add 0.0m escrow and placement shares)</b>				<b>2,128.1</b>	<b>Total (undiluted)</b>	<b>2,837.3</b>	<b>1.33</b>	<b>3,243.2</b>	<b>1.52</b>	<b>3,678.6</b>	<b>1.73</b>	
<b>Share price</b>	<b>A\$/sh</b>					<b>0.920</b>	Dilutive effect of options	-	-	-	-	-	-	
Market capitalisation	A\$m					1,957.9	Add cash from options	-	-	-	-	-	-	
Net cash	A\$m					51.1	<b>Total (diluted)</b>	<b>2,837.3</b>	<b>1.33</b>	<b>3,243.2</b>	<b>1.52</b>	<b>3,678.6</b>	<b>1.73</b>	
<b>Enterprise value (undiluted)</b>	<b>A\$m</b>					<b>1,906.8</b>	<b>MAJOR SHAREHOLDERS</b>							
Options outstanding (m)	m					0.0	<b>Shareholder</b>		<b>%</b>	<b>m</b>				
Options (in the money)	m					0.0	Shanghai Decent (SDI)		18.6%	395.5				
Issued shares (diluted for options)	m					2,128.1	Tanito Group (PT Karunia)		16.1%	343.2				
Market capitalisation (diluted)	A\$m					1,957.9	BlackRock Investment Management		6.8%	144.0				
Net cash + options	A\$m					51.1	Shanghai Wanlu		5.7%	121.3				
<b>Enterprise value (diluted)</b>	<b>A\$m</b>					<b>1,906.8</b>	Regal FM		4.5%	96.5				
<b>MAJOR SHAREHOLDERS</b>						<i>*Transitional 6 month period to Dec-19. Change of Financial Year end from June to December</i>								
						<i><sup>1</sup> Metrics annualised for 6 month period to Dec-19</i>								

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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