Canaccord Genuity Capital Markets

Flash Update

# Nickel Mines Limited

**Base Metals - Producer**

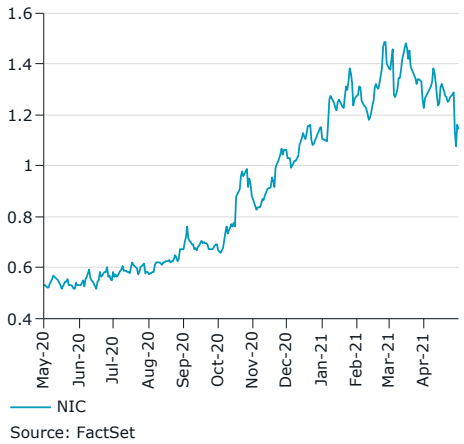
3 May 2021

| Rating | Price Target |
|---|---|
| **BUY** | **A$1.70** |
| **NIC-ASX** | Price **A$1.14** |

**Market Data**

| | |
|---|---|
| 52-Week Range (A$) : | 0.49 - 1.54 |
| Avg Daily Vol (000s) : | 8,063.51 |
| Shares Out. (M) : | 2,515.0 |
| Market Cap (A$M) : | 2,867.1 |
| Dividend /Shr (A$) : | 0.03 |
| Dividend Yield (%) : | 2.6 |

Note: NIC's accounts now reflect DecFYE




Source: FactSet

Priced as of close of business 30 April 2021

Nickel Mines has 80% ownership at each of the Hengjaya and Ranger RKEF NPI lines (each being ~16.5kpta Ni capacity) and a 80% stake in the Weda Bay development (proposed 36ktpa Ni capacity) in Indonesia

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## MoU on matte - a potential link back to LME

- Nickel Mines has signed an MoU with Shanghai Decent to modify two of its existing 4 RKEF lines so that they are able to produce nickel matte (>74% Ni).
- A recent trial at the industrial park where the RKEF lines are located produced a nickel matte with grades over 75% Ni.
- The estimated cost of converting each line is US$1m.
- NIC has guided to these modifications being made and commissioned by early DecQ'21.
- Production can be shifted between NPI and matte; however, there are disruptions to the process and so it is likely that production runs will occur over weeks or months, in our view.
- Shanghai Decent recently signed a contract with Huayou Cobalt and CNGR Advanced Materials for 100kt of nickel matte (75-80kt Ni contained). We believe this material will be used in the conversion of matte to nickel sulphate for the battery supply chain.
- With the MarQ'21 quarterly, NIC pointed to lower realised pricing for NPI QoQ. NPI is connected to the stainless steel market rather than nickel prices received from the LME.
- NIC has highlighted that matte pricing is more aligned to the LME nickel price (we anticipate a payability >80% based off recently reported price negotiations).
- Operational costs were not provided however we would anticipate costs rising towards US$10,000/t on account of higher consumable and power requirements.

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**Investment Recommendation**

Date and time of first dissemination: May 03, 2021, 00:46 ET

Date and time of production: May 03, 2021, 00:46 ET

**Target Price / Valuation Methodology:**

Nickel Mines Limited - NIC

Our PT uses an SOTP valuation with 50/50 weighting of EV/EBITDA and NPV. We apply a 7x multiple to our five-year average EBITDA, which we believe is justified given NIC's earnings are more akin to an industrial business than to a mining operation. We use a 12% discount rate to account for the jurisdiction and counterparty risk, and short operational history.

**Risks to achieving Target Price / Valuation:**

Nickel Mines Limited - NIC

**Financing risks**

- Our base case assumes NIC raises US$100m in debt to fund the US$490m requirement for Weda Bay. The remaining funding will be sourced from cash flows from Morowali operations.
- NIC declared its maiden dividend in August 2020 and we anticipate they will continue to pay a 1cps dividend while Weda Bay is being delivered.

**Exploration risks**

- Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with exploration techniques and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. Our model assumptions assume the conversion of inferred resources at the Hengjaya Mine, which may or may not ultimately be proven to be economic and converted into Reserves.

**Operating risks**

- Once in production, the company is subject to risks such as plant/equipment breakdowns, metallurgical, weather related (i.e., earthquake) and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets considerably and negatively impact valuation. Further, the actual characteristics of a feed material (grade, Fe content, impurities) may differ significantly from initial interpretations which can also materially impact forecast nickel production from original expectations.

**Regulatory risk**

- Operations may be affected by changes to mining and environmental law within Indonesia.
- The Indonesian government introduced the ban on the export of unprocessed raw materials or ore on 12 January 2014. In 2017 there was some relaxation of this ban. Were this ban to be overturned or relaxed further, a decrease in the price of nickel may occur.

**Sovereign risk**

- All of NIC's activities are located within Sulawesi, Indonesia, a country that ranked as one of the highest in the region for mining investment attractiveness in the 2018 Fraser Institute survey and a Baa credit rating from Moody's recently.
- NIC has ensured that the company is structured for the appropriate flow of funds back from the Hengjaya Nickel project through Hengjaya Holdings, a Singaporean holding company.

**Counterparty Risk**

- The development of the RKEF Project and the continued operations of the RKEF Project are heavily reliant on the relationship between NIC and Tsingshan.

- Under the terms of the CSA, TS is responsible for the construction of the RKEF Project and shall take a lead role in the design, construction and operationalisation of the RKEF Project.
- NIC doesn't have a formal contract in place for supply of ancillary services at the IMIP; however, it works within the prevailing 'principle of non-discrimination' that exists with other IMIP operators.

**Commodity price and currency fluctuations**

- As with any mining company, NIC is directly exposed to commodity price and currency fluctuations. Commodity price fluctuations are driven by many macro-economic forces including inflationary pressures, interest rates and supply and demand of commodities. These factors could reduce the profitability or cash projections.

**Distribution of Ratings:**

**Global Stock Ratings (as of 05/03/21)**

| Rating | Coverage Universe | | IB Clients |
|---|---|---|---|
| | # | % | % |
| Buy | 606 | 64.47% | 40.92% |
| Hold | 164 | 17.45% | 21.34% |
| Sell | 13 | 1.38% | 30.77% |
| Speculative Buy | 144 | 15.32% | 67.36% |
| | 940* | 100.0% | |

*Total includes stocks that are Under Review

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**BUY**: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

**HOLD**: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

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**Risk Qualifier**

**SPECULATIVE**: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

**12-Month Recommendation History** (as of date same as the **Global Stock Ratings** table)

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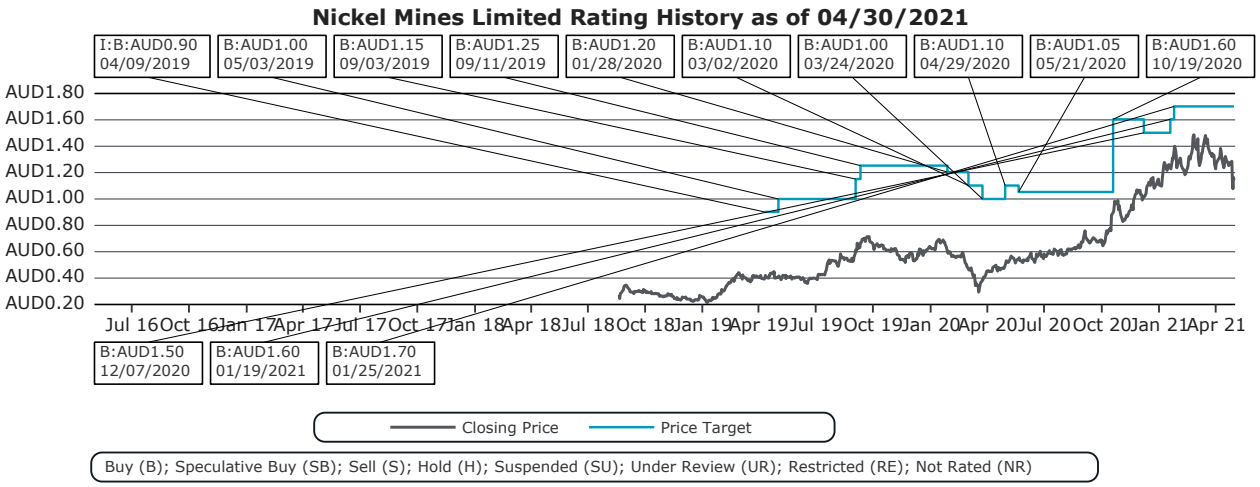


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