Canaccord Genuity Capital Markets

Flash Update

28 October 2021

Nickel Mines Limited

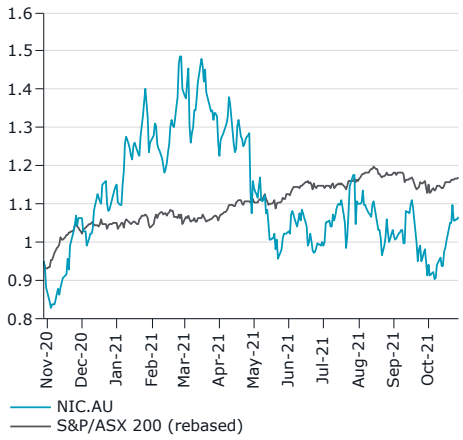
Base Metals - Producer

Rating	Price Target
BUY	**A$1.40**
NIC-ASX	Price **A$1.09**

Market Data

52-Week Range (A$) :	0.82 - 1.54
Avg Daily Vol (000s) :	10,038.36
Shares Out. (M) :	2,515.0
Market Cap (A$M) :	2,741.4
Dividend /Shr (US$) :	0.04
Dividend Yield (%) :	3.7

Note: NIC's accounts now reflect DecFYE



Source: FactSet

Priced as of close of business 27 October 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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SepQ'21 report - first look

Nickel Mines has reported its SepQ'21 result, producing 10.1kt Ni (100%, 8.09kt net to NIC), flat QoQ and in line with our estimates of 10.1kt (100%). The RKEFs delivered an EBITDA of US$62.8m (100%) which was lower than our US$68.1m forecast (lower NPI price) however +23% QoQ. Revenues of US$168.9m were lower than our US$174m estimate (lower NPI price); with costs in line with our estimates however 14% higher QoQ, the result of higher coal and electricity prices.

Coal prices may continue to place upward pressure on costs in the DecQ'21, with Indonesian prices 15% since the end of the quarter, with only a 5% increase in NPI pricing according to Asian metals. **We factor DecQ'21 costs of US$11,471/t at the RKEFs and EBITDA of US$45.7m as margins are squeezed somewhat.**

Henjaya Mine

- The Hengjaya mining operation produced another record production quarter with 579kt mined, +1% QoQ and beating our 456kt expectation. This occurred over a period where seasonal material movement lows have occurred in the past. NIC has improved access and haul roads, and so we think it's a positive sign the mine can operate at sustainably higher rates.
- Pricing was slightly lower than we had expected at US$36.45/t (CGe US$40/t); however, costs also outperformed our expectations at US$24.35/t (CGe US $26/t).

Henjaya and Ranger nickel

- At the Hengjaya nickel line, production Ni production of 4.99kt (100%) was flat QoQ and in line with our estimates of 5kt. Cash costs of US$10,429/kt in line with our estimates of US$10,509/t and 14% higher QoQ on higher coal and electricity prices.
- At the Ranger nickel line, production Ni production of 5.1kt (100%) was flat QoQ and in line with our estimates of 5.1kt. Cash costs of US$10,327/kt were in line with our estimates

Angel nickel project

- NIC increased its stake in the Angel Nickel Project to 80% in the quarter after paying US$210m.
- The company has guided to first production from the facility no later than October 2022.

Cash flow and balance sheet: Cash flow from operations was largely in line with our expectations; however, cash was lower than our US$187m estimate at US$120m, as we had not included the US$210m payment for the Angel nickel project and debt draw-down of US$150m. There was also a US$4m build in working capital in the quarter which restricted cash flow.

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Investment Recommendation

Date and time of first dissemination: October 27, 2021, 19:56 ET

Date and time of production: October 27, 2021, 19:56 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 10/27/21)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	640	68.67%	44.38%
Hold	141	15.13%	28.37%
Sell	8	0.86%	37.50%
Speculative Buy	138	14.81%	60.87%
	932*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

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.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

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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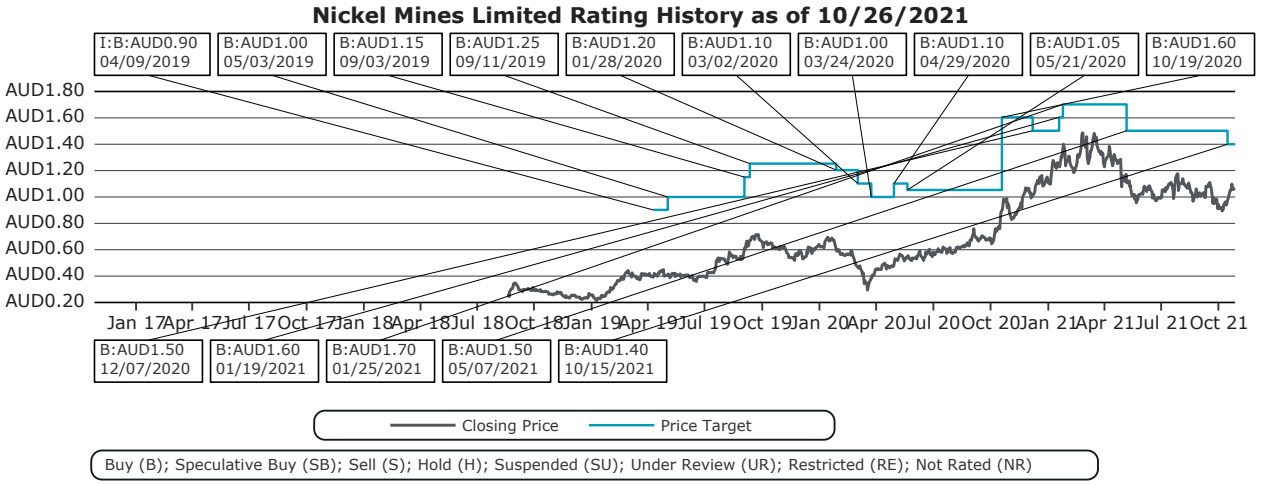

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