

Nickel Mines (NIC)

Rating: Buy | Risk: High | Price Target: \$1.52

Adding more RKEF nickel capacity – a bigger nickel producer than BHP

Key Information

| | |
|-------------------------|-------------|
| Current Price (\$ps) | 1.29 |
| 12m Target Price (\$ps) | 1.52 |
| 52 Week Range (\$ps) | 0.89 - 1.63 |
| Target Price Upside (%) | 17.5% |
| TSR (%) | 22.8% |
| Reporting Currency | USD |
| Market Cap (\$m) | 3,244 |
| Sector | Materials |
| Avg Daily Volume (m) | 7.4 |
| ASX 200 Weight (%) | 0.13% |

Fundamentals

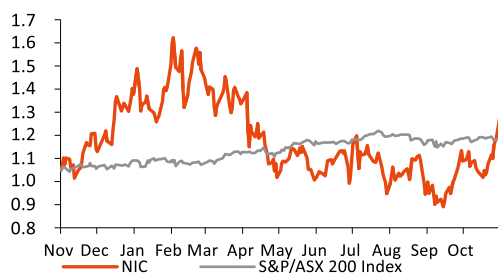
| YE 31 Dec (USD) | FY20A | FY21E | FY22E | FY23E |
|-----------------|-------|-------|-------|--------|
| Sales (\$m) | 523 | 641 | 876 | 1,893 |
| NPAT (\$m) | 111 | 165 | 217 | 523 |
| EPS (cps) | 5.3 | 6.6 | 8.2 | 18.9 |
| EPS Growth (%) | 49.3% | 23.9% | 24.9% | 130.3% |
| DPS (cps) (AUD) | 4.3 | 6.6 | 8.3 | 11.0 |
| Franking (%) | 0% | 0% | 0% | 0% |

Ratios

| YE 31 Dec | FY20A | FY21E | FY22E | FY23E |
|------------------|-------|-------|-------|-------|
| P/E (x) | 16.1 | 14.3 | 11.4 | 5.0 |
| EV/EBITDA (x) | 11.9 | 9.2 | 6.1 | 2.8 |
| Div Yield (%) | 3.5% | 5.3% | 6.4% | 8.5% |
| Payout Ratio (%) | 56.7% | 76.2% | 73.2% | 42.4% |

Price Performance

| YE 31 Dec | 1 Mth | 2 Mth | 3 Mth | 1 Yr |
|---------------|--------|-------|--------|-------|
| Relative (%) | 18.3% | 29.7% | 36.4% | 13.8% |
| Absolute (%) | 18.0% | 31.1% | 35.5% | 26.9% |
| Benchmark (%) | (0.3%) | 1.4% | (0.9%) | 13.1% |



Price performance indexed to 100

Source: FactSet

Major Shareholders

| | |
|--|-------|
| Shanghai Decent (Tsingshan) | 18.6% |
| PT Karunia Bara Perkasa | 16.1% |
| BlackRock Investment Management (UK) Ltd | 6.5% |
| Norm Seckold | 5.8% |
| Shanghai Wanlu | 5.7% |

Event

Nickel Mines has announced a wide-ranging Memorandum of Understanding (MoU) with Shanghai Decent (Tsingshan) which involves additional capacity in a new rotary kiln electric furnace (RKEF) facility at the Indonesia Morowali Industrial Park (IMIP), an agreement to collaborate on renewable energy to reduce the carbon footprint and a potential collaboration on future HPAL facilities. Nickel Mines now has a path towards 100ktpa of nickel output in 2023 which would make it a bigger nickel producer than BHP. We have increased our earnings forecasts by ~50% in CY23/24 and our price target from A\$1.35 to A\$1.52.

Highlights

- Nickel Mines will acquire a 70% interest in four new rotary kiln electric furnaces (RKEF) in the Indonesia Morowali Industrial Park (IMIP). The Oracle Nickel Project (ONI) is similar to the Angel Nickel Project currently being constructed in the Weda Bay Industrial Park and will consist of four RKEF lines with an annual nameplate capacity of 9,000t of nickel metal each. The RKEFs have consistently produced above nameplate capacity and so Nickel Mines now has a pathway to produce ~100ktpa of attributable nickel.
- The ONI project will also include a 380MW coal fired power station that will support the ONI RKEF lines and the overall IMIP grid power requirements.
- The ONI project is expected to commence production in 1Q23, but construction has already commenced, and if Angel is a precedent then Oracle may start up in late 2022. We have assumed 1 Jan 2023 in our modelling.
- The cost of the new facility is expected to be US\$750m, of which Nickel Mines will need to fund \$525m. In our modelling we have assumed that this will be funded by a combination of US\$250m equity, US\$100m debt and US\$175m from internal cash flow. The US\$525m payments will be spread over the next 18months.
- Nickel Mines and Shanghai Decent have also signed a “Future Energy” collaboration framework which is aimed at reducing the carbon footprint of the nickel produced in the RKEFs. The agreement includes;
 - Co -investment in the IMIP’s first solar power plant with an installed capacity of 200MWp. Nickel Mines could participate up to 100MWp, with electricity generated to contribute to the power requirements of the Company’s RKEF lines.
 - the development of an LNG-to-Power solution for IMIP to potentially construct a 180MW combined-cycle gas turbine power plant.
- Nickel Mines and Shanghai Decent have also signed an agreement to explore the feasibility of jointly developing and investing in High-Pressure Acid Leach (HPAL) nickel projects using Nickel Mines existing and prospective nickel resources.

| Revisions | 2021f | | | 2022f | | | 2023f | | | 2024f | | |
|-----------------|-------|-----|-------|-------|-----|-------|-------|-------|-------|-------|-------|-------|
| | New | Old | Chg % | New | Old | Chg % | New | Old | Chg % | New | Old | Chg % |
| Revenue (US\$m) | 641 | 641 | 0% | 876 | 876 | 0% | 1,893 | 1,245 | 52% | 1,936 | 1,273 | 52% |
| EBITDA (US\$m) | 251 | 251 | 0% | 377 | 377 | 0% | 839 | 549 | 53% | 859 | 563 | 53% |
| EBIT (US\$m) | 215 | 215 | 0% | 324 | 340 | -5% | 763 | 512 | 49% | 782 | 525 | 49% |
| NPAT (US\$m) | 165 | 165 | 0% | 217 | 232 | -6% | 523 | 352 | 49% | 537 | 362 | 48% |

Recommendation

We maintain our BUY Recommendation and lift our price target from A\$1.35 to A\$1.52. Our price target is based on our fully diluted DCF valuation. In our view the worst of the margin pressure is now behind Nickel Mines, and the strong growth outlook as the Angel and Oracle Nickel Projects come on-line is attractive. On our forecasts, Nickel Mines is trading at just 4.2x earnings in CY23.

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Nickel Mines

Materials Materials

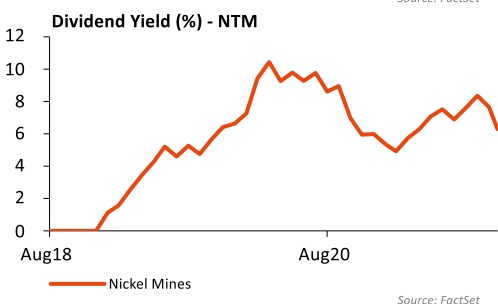
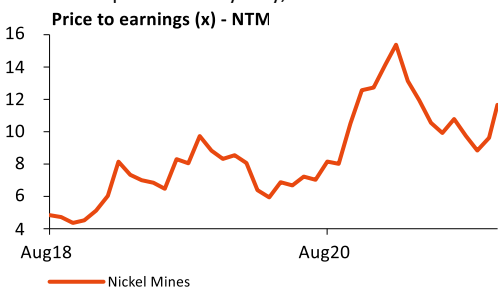
FactSet: NIC-AU / Bloomberg: NIC AU

Key Items

| Key Items | Data |
|---------------------------------|-------------|
| Recommendation | BUY |
| Risk | HIGH |
| Price (\$ps) | 1.29 |
| Target Price (\$ps) | 1.52 |
| 52 Week Range (\$ps) | 0.89 - 1.63 |
| Shares on Issue (m) | 2,515 |
| Market Cap (\$m) | 3,244 |
| Enterprise Value (\$m) | 3,185 |
| TSR (%) | 22.8% |
| Valuation per share (cps) (AUD) | 1.52 |
| Valuation (\$m) | 4,199.65 |

Company Description

Nickel Mines Ltd. is a nickel producer with assets in Indonesia and operates in partnership with Tsingshan, the world's largest stainless steel producer. Nickel Mines produces nickel ore from the Hengjaya Mine which supplies feedstock to the Indonesia Morowali Industrial Park (IMIP). The company's main asset is an 80% stake in the Hengjaya and Ranger rotary kiln electric furnaces (RKEF) located in IMIP. The company was founded on September 12, 2007 and is headquartered in Sydney, Australia.



Financial Year End: 31 December

| Investment Summary (USD) | FY19A | FY20A | FY21E | FY22E | FY23E |
|--------------------------------------|---------|---------|-------|-------|---------|
| EPS (Reported) (cps) | 3.5 | 5.3 | 6.6 | 8.2 | 18.9 |
| EPS (Underlying) (cps) | 3.5 | 5.3 | 6.6 | 8.2 | 18.9 |
| EPS (Underlying) Growth (%) | (42.3%) | 49.3% | 23.9% | 24.9% | 130.3% |
| PE (Underlying) (x) | 13.0 | 16.1 | 14.3 | 11.4 | 5.0 |
| EV / EBIT (x) | 28.6 | 14.6 | 10.8 | 7.1 | 3.0 |
| EV / EBITDA (x) | 23.8 | 11.9 | 9.2 | 6.1 | 2.8 |
| DPS (cps) (AUD) | 0.0 | 4.3 | 6.6 | 8.3 | 11.0 |
| Dividend Yield (%) | 0.0% | 3.5% | 5.3% | 6.4% | 8.5% |
| Franking (%) | 0% | 0% | 0% | 0% | 0% |
| Payout Ratio (%) | 0.0% | 56.7% | 76.2% | 73.2% | 42.4% |
| Profit and Loss (USD) (m) | FY19A | FY20A | FY21E | FY22E | FY23E |
| Sales | 236 | 523 | 641 | 876 | 1,893 |
| Sales Growth (%) | 263.5% | 121.8% | 22.4% | 36.7% | 116.0% |
| Other Operating Income | 1 | 0 | 0 | 0 | 0 |
| EBITDA | 97 | 194 | 251 | 377 | 839 |
| EBITDA Margin (%) | 41.2% | 37.1% | 39.2% | 43.0% | 44.3% |
| Depreciation & Amortisation | (16) | (37) | (37) | (53) | (77) |
| EBIT | 80.8 | 157.7 | 214.7 | 323.6 | 762.7 |
| EBIT Margin (%) | 34.2% | 30.1% | 33.5% | 36.9% | 40.3% |
| Net Interest | 11 | (3) | (2) | (3) | (4) |
| Pretax Profit | 91 | 155 | 213 | 321 | 759 |
| Minorities | 35 | 43 | 48 | 72 | 160 |
| NPAT Underlying | 57 | 111 | 165 | 217 | 523 |
| Significant Items | 0 | 0 | 0 | 0 | 0 |
| NPAT Reported | 57 | 111 | 165 | 217 | 523 |
| Cashflow (USD) (m) | FY19A | FY20A | FY21E | FY22E | FY23E |
| EBIT | 81 | 158 | 215 | 324 | 763 |
| Payments to Suppliers | (170) | (359) | (389) | (499) | (1,053) |
| Receipts from Customers | 213 | 518 | 641 | 876 | 1,893 |
| Tax Paid | (5) | (9) | 0 | 0 | (32) |
| Net Interest | 0 | 0 | 4 | 3 | 1 |
| Depreciation & Amortisation | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | (59) | (77) | (321) |
| Operating Cashflow | 38 | 150 | 196 | 303 | 488 |
| Capex | (30) | (7) | (3) | (3) | (4) |
| Acquisitions and Investments | (1) | (177) | (460) | (463) | (62) |
| Disposal of Fixed Assets/Investments | 7 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Investing Cashflow | (24) | (184) | (463) | (466) | (66) |
| Equity Raised / Bought Back | (0) | 418 | 0 | 250 | 0 |
| Dividends Paid | 0 | (15) | (101) | (132) | (194) |
| Change in Debt | (30) | (25) | 200 | 50 | (50) |
| Other | 17 | (43) | (53) | (77) | (165) |
| Financing Cashflow | (13) | 334 | 46 | 90 | (409) |
| Exchange Rate Effect | (0) | 2 | 0 | 0 | 0 |
| Net Change in Cash | 1 | 302 | (221) | (73) | 13 |
| Balance Sheet (USD) (m) | FY19A | FY20A | FY21E | FY22E | FY23E |
| Cash | 50 | 351 | 131 | 58 | 71 |
| Accounts Receivable | 97 | 118 | 123 | 168 | 363 |
| Inventory | 56 | 61 | 123 | 168 | 363 |
| Other Current Assets | 1 | 8 | 8 | 8 | 8 |
| PPE | 629 | 601 | 709 | 1,122 | 1,111 |
| Total Assets | 897 | 1,235 | 1,507 | 1,937 | 2,329 |
| Accounts Payable | 52 | 40 | 48 | 62 | 131 |
| Short Term Debt | 4 | 13 | 13 | 0 | 0 |
| Long Term Debt | 61 | 32 | 232 | 295 | 245 |
| Income Taxes Payable | 1 | 4 | 4 | 4 | 4 |
| Other | 57 | 59 | 60 | 92 | 136 |
| Total Liabilities | 175 | 148 | 356 | 452 | 515 |
| Total Shareholder Equity | 722 | 1,086 | 1,151 | 1,485 | 1,814 |
| Ratios | FY19A | FY20A | FY21E | FY22E | FY23E |
| ROE (%) | 15.3% | 16.2% | 17.0% | 18.5% | 34.8% |
| Gearing (%) | 3.4% | (48.4%) | 10.2% | 15.0% | 9.4% |
| Net Debt / EBITDA (x) | 0.2 | (1.6) | 0.5 | 0.6 | 0.2 |

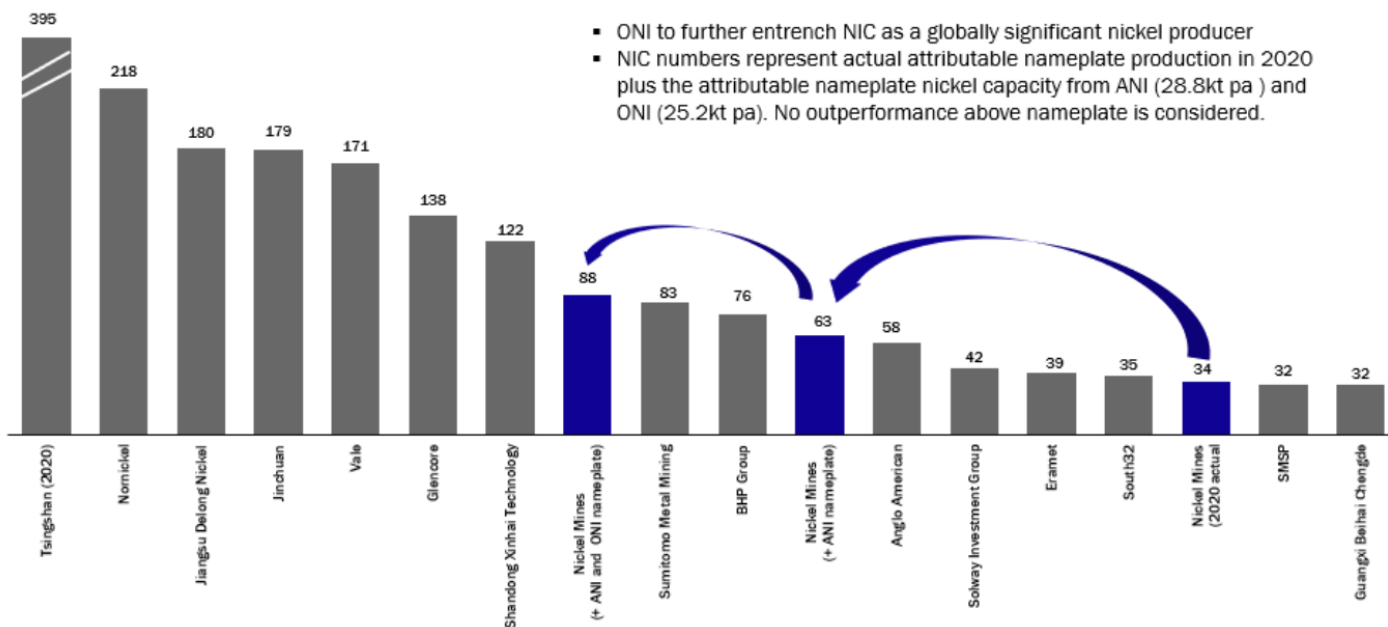
Figure 1: Oracle Nickel payment schedule

| Date | Amount (US\$M) | Cumulative (US\$M) | % of ONI |
|---|----------------|--------------------|----------------------------------|
| Signing of MoU | 10.0 | 10.0 | |
| Definitive Agreement (By 31 January 2022) | 20.0 | 30.0 | |
| By 31 March 2022 | 23.0 | 53.0 | 10% |
| By 30 June 2022 | 106.0 | 159.0 | 30% |
| By 30 September 2022 | 46.2 | 205.2 | 1 st shareholder loan |
| By 31 December 2022 | 212.0 | 417.2 | 70% |
| | 46.2 | 463.4 | 2 nd shareholder loan |
| By 31 March 2023 | 61.6 | 525.0 | 3 rd shareholder loan |
| Total | 525.0 | | |

Source: Nickel Mines ASX release 22 Nov 2021

Figure 2: Processed nickel production – 88kt name plate capacity, but could exceed 100ktpa in actual output

Processed Nickel Production (Kt Ni)



Source: Nickel Mines ASX release 22 Nov 2021

Key risks

- The nickel price is volatile and is often driven by arbitrary policy changes such as the Indonesian export ban. As such, the price of nickel is relatively difficult to forecast and the actual price may differ substantially from our forecasts.
- Some investors may be concerned that the company operates in Indonesia, in partnership with a Chinese company and with Indonesian and Chinese strategic shareholders. However, Nickel Mines is 'inside the fence' and not an outsider. The relationship with Tsingshan is strong, and Tsingshan has a strong relationship with Indonesian authorities.
- Smaller companies carry more significant 'key personnel' risk than larger organisations. If senior management depart the company, then it could delay projects or exacerbate operational risks.

Core drivers and catalyst

- Nickel is predominantly used in the production of stainless steel (69% of consumption) but is finding growing use as a cathode in lithium ion batteries. The electrification of light vehicles is likely to see increased demand for nickel.
- Nickel Mines has an 80% economic interest in two RKEF projects in the IMIP. At a mid-cycle nickel price of US\$6.50/lb, the two projects will generate combined free cash flow of about US\$210mpa (100% basis).
- Nickel Mines is acquiring an 80% stake in the Angel Nickel Project at Weda Bay, also in Indonesia in partnership with Tsingshan.

Rating Classification

| | |
|------------------|--|
| Buy | Expected to outperform the overall market |
| Hold | Expected to perform in line with the overall market |
| Sell | Expected to underperform the overall market |
| Not Rated | Shaw has issued a factual note on the company but does not have a recommendation |

Risk Rating

| | |
|---------------|---|
| High | Higher risk than the overall market – investors should be aware this stock may be speculative |
| Medium | Risk broadly in line with the overall market |
| Low | Lower risk than the overall market |

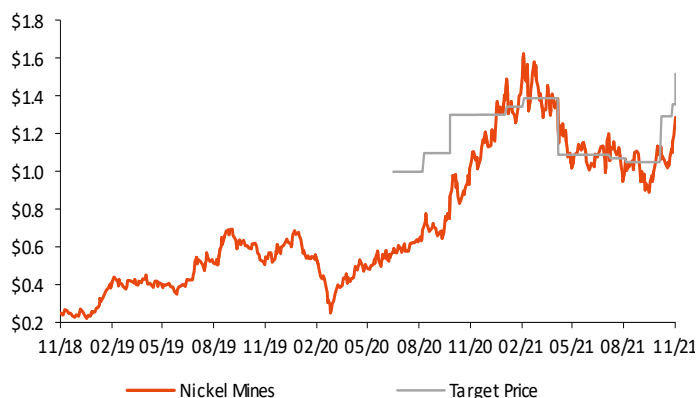
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Distribution of Investment Ratings

| Rating | Count | Recommendation Universe |
|--------|-------|-------------------------|
| Buy | 87 | 84% |
| Hold | 15 | 15% |
| Sell | 1 | 1% |

History of Investment Rating and Target Price - Nickel Mines

| Date | Closing Price (\$) | Target Price (\$) | Rating |
|-----------|--------------------|-------------------|--------|
| 22-Nov-21 | 1.29 | 1.52 | Buy |
| 17-Nov-21 | 1.16 | 1.35 | Buy |
| 28-Oct-21 | 1.03 | 1.24 | Buy |
| 26-Aug-21 | 1.03 | 1.05 | Hold |
| 29-Jul-21 | 1.11 | 1.05 | Sell |
| 27-Apr-21 | 1.13 | 1.01 | Sell |
| 25-Feb-21 | 1.49 | 1.26 | Sell |
| 25-Jan-21 | 1.40 | 1.26 | Hold |
| 2-Dec-20 | 1.05 | 1.28 | Buy |
| 16-Oct-20 | 0.89 | 1.33 | Buy |
| 31-Aug-20 | 0.68 | 1.08 | Buy |
| 7-Jul-20 | 0.60 | 1.04 | Buy |



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