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# Nickel Mines Limited (NIC)

## Growth funding secured

### Recommendation

**Buy** (unchanged)

Price

**\$1.36**

Target (12 months)

**\$1.83** (previously \$1.89)

### GICS Sector

Materials

### Expected Return

Capital growth	<b>34.6%</b>
Dividend yield	<b>2.9%</b>
Total expected return	<b>37.5%</b>

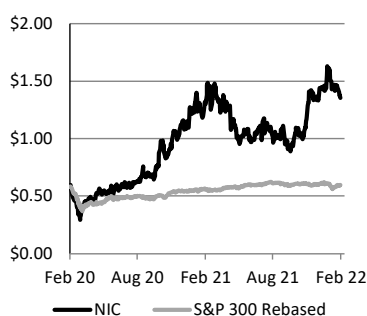
### Company Data & Ratios

Enterprise value	<b>\$3,680m</b>
Market cap	<b>\$3,568m</b>
Issued capital	<b>2,623m</b>
Free float	<b>77%</b>
Avg. daily val. (52wk)	<b>\$14.5m</b>
12 month price range	<b>\$0.885-\$1.65</b>

### Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	1.62	1.07	1.20
Absolute (%)	-16.1	27.2	13.4
Rel market (%)	-14.7	29.4	6.1

### Absolute Price



SOURCE: IRESS

### First tranche: US\$106m placement

NIC has completed a fully underwritten Institutional Placement of US\$106m (A\$148m) priced at A\$1.37/sh. This is the first stage of a US\$225m capital raising which comprises a further US\$106m non-underwritten placement to Shanghai Decent Investments (SDI) a subsidiary of Tsingshan Group, NIC's partner at both Indonesian Morowali Industrial Park (IMIP) and Indonesia Weda Bay Industrial Park (IWIP). The raise also includes a ~US\$13m (~A\$18m) non-underwritten share purchase plan (SPP) for eligible shareholders. The capital raising will fund NIC's initial acquisition of a 30% interest in the Oracle Nickel Project (ONI), located within the IMIP, for consideration of US\$159m. This is part of total consideration of US\$525m (incl. shareholder loans of US\$154m) for a 70% interest in ONI, to be completed by Q1CY23. NIC has now completed the Stage 1 acquisition, securing 10% of ONI.

### Earnings growth profile de-risked and reinforced

This capital raising represents a key milestone in de-risking the funding of the acquisition of the balance of the 70% ONI interest. We anticipate the balance of NIC's consideration, which is scheduled to be completed in stages by end March CY23, will be funded by cash on hand, operating cash flows from NIC's existing NPI and laterite ore mining operations, supplemented by corporate debt. We view the ONI acquisition as highly value accretive, highly capital efficient and locking in an aggressive production and earnings growth profile that we do not see being matched in the sector.

### Investment thesis – Buy, TP\$1.83/sh (from \$1.89/sh)

Our EPS forecasts are lowered 9% and 8% for FY22 and FY23 respectively on a combination of financing costs associated with the funding activities and the dilution of the equity raise. We lower our FY22 and FY23 dividend forecasts, reflecting dilution, increased gearing and capital investment phase. Our NPV-based price target is lowered 3%. We continue to forecast aggressive EPS growth of 78% and 84% for FY22 and FY23, on what we view as conservative production forecasts. NIC remains one of our top picks across the sector and we retain our Buy recommendation.

### Earnings Forecast

Year ending 31 December	2020a	2021e	2022e	2023e
Sales (US\$m)	523	644	1,149	1,681
EBITDA (US\$m)	194	250	469	844
Attributable NPAT (reported) (US\$m)	111	155	279	536
Attributable NPAT (reported) (A\$m)	160	206	382	734
EPS (adjusted) (Acps)	8.2	8.2	14.6	26.8
EPS growth (%)	62%	0%	78%	84%
PER (x) 1	16.6	16.6	9.3	5.1
FCF Yield (%) 1	-2%	-9%	1%	27%
EV/EBITDA (x) 1	13.6	10.6	5.7	3.1
Dividend (Acps)	3.0	4.0	6.0	10.0
Yield (%)	2.2%	2.9%	4.4%	7.4%
Franking (%)	0%	0%	0%	0%
ROE (%) 1	27%	20%	30%	44%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Growth funding secured

## First tranche: US\$106m placement

NIC has completed a fully underwritten Institutional Placement of US\$106m (A\$148m) priced at A\$1.37/sh. This is the first stage of a US\$225m capital raising which comprises a further US\$106m non-underwritten placement to Shanghai Decent Investments (SDI) a subsidiary of Tsingshan Group, the world's largest stainless steel producer. SDI is NIC's partner at both the Indonesian Morowali Industrial Park (IMIP) and the Indonesia Weda Bay Industrial Park (IWIP). The raise also includes a ~US\$13m (~A\$18m) non-underwritten share purchase plan (SPP) for eligible shareholders, also at A\$1.37/sh.

The capital raising will fund NIC's initial acquisition of a 30% interest in the Oracle Nickel Project (ONI), located within the IMIP, for consideration of US\$159m. This is part of a total consideration of US\$525m (including shareholder loans of US\$154m) for a 70% interest in ONI. The acquisition has been agreed to be completed by the end of March 2023. The table below summarises the staged consideration payments schedule, showing the first stage, 10% acquisition, as complete.

**Table 1 - Oracle Nickel staged consideration and acquisition schedule**

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

SOURCE: COMPANY DATA

## Acquisition funding requirements

NIC made milestone payments of US\$30m during the December 2021 quarter, leaving amounts totalling US\$129m to be paid by June 30 2022. At end December 2021, NIC held cash of US\$138m and the completion of the first stage of the placement has added US\$106m to NIC's balance sheet. Together with attributable cash flows for the next two quarters, which we currently forecast at ~US\$80m, we estimate NIC will have liquidity of ~US\$320m to meet commitments of US\$129m in that period.

While we also estimate that NIC will have sufficient liquidity to meet the balance of the acquisition payments and loan provisions to March 2023, we still anticipate that debt funding of US\$80-US\$100m will be utilised to supplement NIC's balance sheet in order to maintain its strength and flexibility.

NIC currently has issued US\$325m in Senior Unsecured Notes. This would increase NIC's gross debt to US\$405-US\$425m and lift net gearing from ~15% to ~20%. We forecast high returns on assets and equity over the next two years, indicating these investments to be an efficient use of capital. We also forecast comfortable debt service coverage and modest and dropping net debt metrics. A combination of debt and equity funding is consistent with our expectations. We view the ONI acquisition as value accretive and affordable.

## Earnings growth profile de-risked and reinforced

With the Oracle RKEF lines due to commence commissioning in 1QCY23, NIC's aggressive production and earnings growth profile is de-risked reinforced with this funding package. We forecast US\$ earnings to more than triple from CY21 to CY23 on production growth of 2.4x. There is potential upside to our forecasts given the historical outperformance of NIC's existing RKEF lines compared with nameplate. This is an aggressive production and earnings growth profile that we do not see being matched in the sector.

## Changes to our forecasts

We have updated our financial forecasts and modelled assumptions to reflect the completion of the first component of the capital raising, being the Institutional Placement of 108.1m shares at A\$1.37/sh. In addition we have:

- Made an assumption for further dilution reflecting the planned completion of the balance of the capital raise, being the placement of 106.1m shares at A\$1.37/sh to SDI and the Share Purchase Plan of ~13m shares at A\$1.37/sh;
- Assumed debt issuance of US\$80m in 1HCY22 to supplement the balance sheet; and
- Lower our risk-adjustment discount for our ONI valuation from 15% to 10%, reflecting the reduced financing risk and ongoing construction progress.

We have made no changes to our operational assumptions, commodity price or exchange rate forecasts. The net impacts of these changes are summarised in the forecast changes table below:

**Table 2 - Changes to our CY forecasts**

Year end 31 December	Previous			New			Change		
	Dec-21	Dec-22	Dec-23	Dec-21	Dec-22	Dec-23	Dec-21	Dec-22	Dec-23
<b>Prices &amp; currency</b>									
Nickel price (US\$/t)	18,460	19,456	18,629	18,460	19,456	18,629	0%	0%	0%
US\$/A\$	0.75	0.73	0.73	0.75	0.73	0.73	0%	0%	0%
<b>Production &amp; costs</b>									
Ore mined (t)	2,169,972	2,400,000	2,400,000	2,169,972	2,400,000	2,400,000	0%	0%	0%
Nickel in ore (t)	38,165	43,200	43,200	38,165	43,200	43,200	0%	0%	0%
RKEF NPI production (t)	298,352	517,008	789,615	298,352	517,008	789,615	0%	0%	0%
Contained nickel (t)	40,411	66,771	100,846	40,411	66,771	100,846	0%	0%	0%
Contained nickel (t, attributable)	32,329	53,417	78,457	32,329	53,417	78,457	0%	0%	0%
Cash costs (US\$/t Ni)	10,106	10,700	8,674	10,106	10,700	8,674	0%	0%	0%
<b>Earnings &amp; valuation</b>									
Revenue (consolidated, US\$m)	644	1,149	1,681	644	1,149	1,681	0%	0%	0%
EBITDA (consolidated, US\$m)	250	469	844	250	469	844	0%	0%	0%
EBITDA (attributable, US\$m)	199	374	657	199	374	657	0%	0%	0%
NPAT (reported, attributable, US\$m)	155	293	533	155	279	536	0%	-5%	0%
EPS (reported) (Acps)	8.2	16.0	29.0	8.2	14.6	26.8	0%	-9%	-8%
PER (x)	16.6	8.5	4.7	16.6	9.3	5.1	-	0.8	0.4
EPS growth (%)	0%	95%	82%	0%	78%	84%	0%	-17%	2%
DPS (Acps)	4.0	7.0	11.0	4.0	6.0	10.0	0%	-14%	-9%
Yield	2.9%	5.1%	8.1%	2.9%	4.4%	7.4%	0%	-1%	-1%
NPV (A\$/sh)	1.61	1.89	2.44	1.61	1.83	2.45	0%	-3%	1%
<b>Price Target (A\$/sh)</b>		1.89			1.83			-3%	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Our EPS forecasts are lowered 9% and 8% for FY22 and FY23 respectively on a combination of higher financing costs associated with the debt and equity funding activities and the dilution of the planned equity raise. We lower our FY22 and FY23 dividend forecasts, reflecting the dilution, increased gearing and capital investment phase. We continue to forecast aggressive EPS growth of 78% and 84% for FY22 and FY23, on what we view as conservative production forecasts.

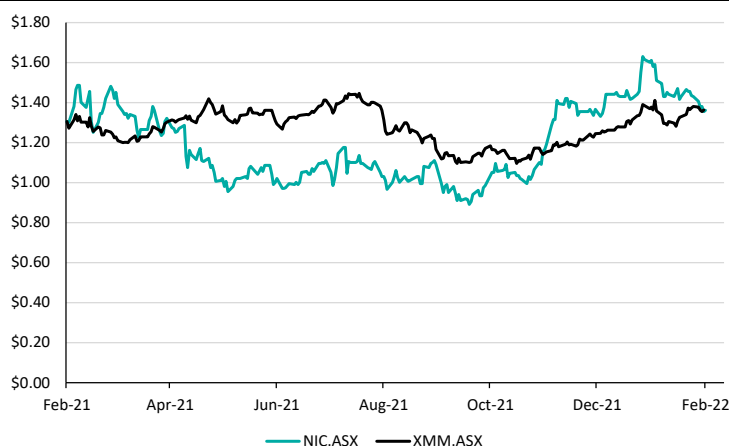
## Upcoming catalysts

Upcoming catalysts for NIC include:

- The release of NIC's CY21 full year financial results, expected in late February 2022;
- Updates on Nickel Pig Iron (NPI) pricing and the effective Ni payability, which we believe the market will continue to consider as a measure of NIC's nickel price exposure;
- Further updates on the production ramp-up progress of ANI, in which NIC holds an 80% interest. We anticipate full production in the December quarter 2022;
- Further updates on the construction of ONI, comprising 4 next-generation RKEF lines being developed within the IMIP. Commissioning is to commence in 1QCY23;
- Progress updates for the Hengjaya Mine, where a major production expansion is complete. We will be looking for costs to track lower, towards ~US\$20/t and for the first commercial limonite nickel ore sales in 1QCY22;
- The release of the March 2022 quarterly production and cost report, expected in late April 2022;
- Exploration and development updates on the Siduars Nickel-Cobalt project in Papua province, Indonesia, in which NIC has recently acquired a 100% interest; 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 an 80% 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. The RKEF lines are located in an existing, fully integrated stainless steel production facility, the Indonesian Morowali Industrial Park (IMIP).

First production from the Hengjaya Lines was achieved on 31 January 2019 and the Ranger Lines commenced production during the December quarter 2019. Both projects have since achieved steady state production of ~20ktpa contained Ni in NPI, exceeding nameplate production of ~16ktpa each at lower than planned operating costs.

NIC has also executed binding agreements to acquire an 80% interest in the Angel Nickel Project comprising four new generation RKEF NPI production lines currently in production ramp up production within the Indonesia Weda Bay Industrial Park (IWIP) on Halmahera Island in Indonesia and a 70% interest in the Oracle Nickel Project, comprising four new generation RKEF NPI production lines currently under construction within the IMIP.

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\$1.83/sh (from \$1.89/sh)

Our EPS forecasts are lowered 9% and 8% for FY22 and FY23 respectively on a combination of financing costs associated with the funding activities and the dilution of the equity raise. We lower our FY22 and FY23 dividend forecasts, reflecting dilution, increased gearing and capital investment phase. Our NPV-based price target is lowered 3%. We continue to forecast aggressive EPS growth of 78% and 84% for FY22 and FY23, on what we view as conservative production forecasts. NIC remains one of our top picks across the sector and we retain our Buy recommendation.

## Valuation: \$1.83/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 70% interest in the Oracle Nickel Project (ONI) 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 \$1.83/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.



**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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