BELL POTTER

13 September 2019

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Nickel Mines Ltd (NIC)

Crushing it

Recommendation
Buy (unchanged)
Price
$0.70
Target (12 months)
$1.24 (previously $0.94)

GICS Sector

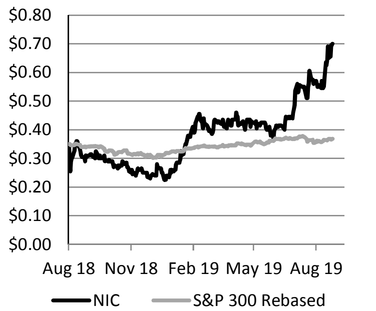
Materials

Expected Return	
Capital growth	**77.1%**
Dividend yield	**0.0%**
Total expected return	**77.1%**
Company Data & Ratios	
Enterprise value	**$1,094.4m**
Market cap	**$1,165.8m**
Issued capital	**1,665.5m**
Free float	**56%**
Avg. daily val. (52wk)	**$1.0m**
12 month price range	**$0.22-$0.725**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.61	0.40	0.31
Absolute (%)	15.7	75.0	129.5
Rel market (%)	14.5	71.5	121.0

Absolute Price



SOURCE: IRESS

Profitable ramp up an excellent start

NIC's FY19 financial results came in ahead of our expectations, delivering a maiden, underlying NPAT of US$7.2m. While modest, it was ahead of our forecast of a minor loss and was generated during the ramp-up and commissioning phase of operations at the Indonesia Morowali Industrial Park (IMIP). Typically, this can be a period of low production rates and high unit costs, however NIC has outperformed on both these fronts for a resultant strong financial performance. This is a clear positive, but most important takeaway from this is the implication for profitability and cash flows once steady-state production rates are achieved. We think the key takeout is that the underlying EBITDA of US$20.4m has been generated by ramp-up production of 5,477t Ni in NPI in the 5 months to June 2019 and from the Hengjaya RKEF lines alone.

Production exceeds nameplate ahead of schedule

Monthly production data included in an update presentation recently released to the market has shown continued ramp-up success across both the Hengjaya and Ranger lines. After reaching design capacity in April 2019, the Hengjaya Nickel lines have maintained continuous production growth and in August achieved record monthly production of 1,859t Ni in NPI – some 35% above our steady state assumption. The Ranger Nickel lines have ramped up even faster, and in August exceeded our steady state assumption by 28%. These are impressive achievements and have caused us to accelerate and increase our production forecasts, driving material earnings and valuation upgrades. We now forecast annualised production of 39-40kt Ni in NPI from the Hengjaya and Ranger lines combined (100%-basis).

Investment thesis –Buy, TP $1.24/sh (from Spec. Buy, $0.94)

As a result of our upgraded forecasts we now estimate FY20 NPAT of US$154m (up 13%) and FY21 NPAT of US$191m (up 20%). Our NPV-based valuation increases by 32% to $1.24/sh. The strong FY19 financial result, with positive underlying EBITDA and earnings, also allows us to remove our Speculative rating.

Earnings Forecast

Year ending 30 June	**2019a**	**2020e**	**2021e**	**2022e**
Sales (US$m)	65	608	682	718
EBITDA (US$m)	20	283	341	368
Attributable NPAT (reported) (US$m)	66	154	191	212
Attributable NPAT (adjusted) (US$m)	7	154	191	212
EPS (adjusted) (A¢ps)	0.8	13.8	15.9	17.5
EPS growth (%)	nm	95%	15%	10%
PER (x)	9.9	5.1	4.4	4.0
FCF Yield (%)	-21%	22%	39%	43%
EV/EBITDA (x)	36.7	2.7	2.2	2.0
Dividend (A¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	37%	63%	53%	44%

SOURCE: BELL POTTER SECURITIES ESTIMATES

BELL POTTER SECURITIES LIMITED
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Crushing it

FY19 financial result points to strong metrics ahead

NIC's FY19 financial results came in ahead of our expectations, delivering a maiden, underlying NPAT of US$7.2m. While modest, it was ahead of our forecast of a minor loss and was generated during the ramp-up and commissioning phase of operations at the IMIP. Typically, this can be a period of low production rates and high unit costs, however NIC has outperformed on both these fronts for a resultant strong financial performance. This is a clear positive, but most important takeaway from this is the implication for profitability and cash flows once steady-state production rates are achieved.

The FY19 result is NIC's first following the commencement of production from its 60%-owned Hengjaya Nickel project and its 17%-owned Ranger Nickel project (increased to 60% post period-end). Some de-construction of the result is required as it includes revenues that have been reported in part on a consolidated basis (ie to the top line) and on an equity accounted basis (ie ~US$14m excluded from the revenue line and reflected only through its ~US$2.6m contribution to operating profit). Our revenue estimate also included sales from the ramp-up of Ranger Nickel lines, sales from which were not actually booked until post period-end (~US$4m). The result also includes a non-cash accounting item (US$57m) reflecting fair value movements in the carrying value of NIC's interest in the Hengjaya Nickel project during FY19, for a reported NPAT of US$65.5m.

Adjusting for this, NPAT came in ahead of our estimates, largely on the absence of a US$6m tax expense, which we had conservatively included on the assumption that the tax concessions would become effective in the first full year of production (i.e. FY20, not FY19). These differences largely account for the variances in our estimates

Table 1 - NIC Financial result summary

Financials (Consolidated basis)	Jun-17 Actual	Jun-18 Actual	Jun-19 Actual	Jun-19 BPe	Variance vs BPe	Variance vs pcp
Revenue (US$m)	8.6	13.6	64.9	84.6	-23%	379%
EBITDA (US$m)	-3.3	-1.6	20.4	24.5	-17%	-1415%
NPAT underlying (US$m)	-3.8	-3.3	7.2	-1.0	-791%	-318%
NPAT reported (US$m)	-3.8	-3.3	65.5	-1.0	-6383%	-2079%
EPS reported (Ac/sh)	-1.6	-0.9	7.1	-0.1	-7166%	-846%
Dividend (Ac/sh)	0.0	0.0	0.0	0.0	na	na
Free cash flow (US$m)	-0.03	-58.92	-136.50	-97.5	40%	132%
Cash balance (US$m)	0.3	0.8	49.0	71.4	-31%	5975%
Debt (US$m)	5.4	0.0	4.2	0.0	na	na
Production, costs, prices						
Ni in NPI (t, Consolidated)	0	0	5,788	5,788	0%	na
Ni in NPI (t, Attributable)	0	0	3,339	3,339	0%	na
AIC (US$/t)	$0	$0	$8,125	$8,125	0%	na
Nickel price (US$/t)	$10,141	$12,456	$12,343	$12,343	0%	-1%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Key takeaway

We think the key takeout is that the underlying EBITDA of US$20.4m has been generated by ramp-up production of 5,477t Ni in NPI in the 5 months to June 2019 from the Hengjaya RKEF lines alone. Keeping in mind that:

- Production in July and August has since ramped up ahead of forecast; and
- Both the Hengjaya and Ranger Lines achieved production ahead of nameplate in the month of August;

We are of the view that profitability and cash flows for NIC are off to a very strong start.

Production reaches nameplate 1 month ahead of schedule – and exceeds it

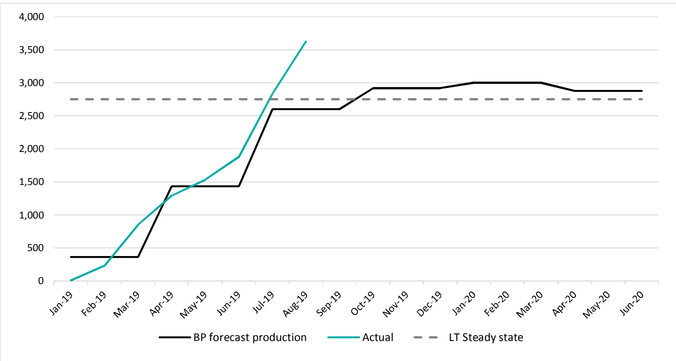
Monthly production data included in an update presentation recently released to the market has shown continued ramp-up success across both the Hengjaya and Ranger lines.

After reaching design capacity of 1,250t Ni in NPI in April 2019, the Hengjaya Nickel lines have maintained continuous monthly production growth through to August 2019, when record monthly production of 1,859t Ni in NPI was achieved – some 35% above our steady state assumption of 1,375t Ni in NPI per month (i.e. 2,750t combined).

The Ranger Nickel lines, after commencing production on 31 May 2019, rapidly increased production well ahead of schedule. We had been looking for 80% of steady state in August 2019 and this level was exceeded in July. Similarly we had been looking for 100% of steady state by end September 2019, yet this has been exceeded by 28% in the month of August 2019 – an impressive achievement.

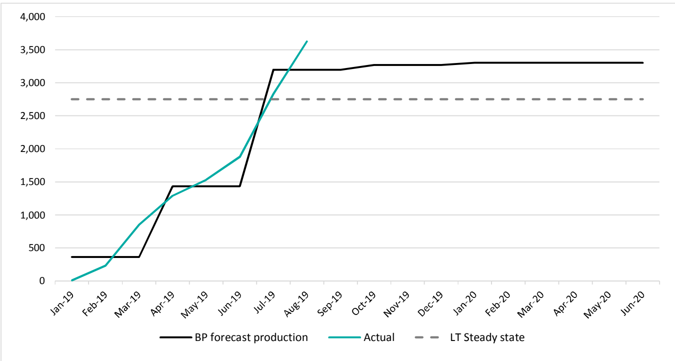
The upshot is that the combined NPI production from the Hengjaya and Ranger lines has comfortably exceeded our ramp-up forecasts and our modelled, steady state production has been reached one month ahead of an already accelerated schedule.

Figure 1 – Combined Ni in NPI production – previous forecast



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 2 - Combined Ni in NPI production – current forecast



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Grade and throughput driving outperformance

While we do not yet have the detailed production data to see what is driving the outperformance, quarterly production data released through to end June 2019 indicated that higher Ni in NPI grades are accounting for some, but not all of, the outperformance. This implies that throughput is also likely being achieved ahead of forecasts and contributing to the additional nickel units.

We have previously upgraded our FY20 production forecasts due to the high Ni in NPI grades reported in the first 6 months of production. These grades have not only been maintained but it now appears throughput is also ahead of our expectations. The quantum and consistency of the production outperformance has led us to increase our forecast production levels beyond FY20 and into the medium term.

We are now forecasting annualised production of 39-40kt Ni in NPI from the Hengjaya and Ranger lines combined (100%-basis), equating to 23-24kt Ni in NPI attributable to NIC (60%).

Production outperformance sending costs lower – potential for 5-10% reductions

The other data points released with the recent presentation included cash costs for the month of July. With the improved production performance and a high proportion of fixed costs, the result was a commensurate decrease in cash costs. While we do not yet incorporate major cost reductions into our forecasts, we can see potential for cash cost reductions of the order of 5-10%. This would flow directly through to our valuation and EBITDA forecasts – as per our sensitivity analysis (Tables 5 and 6, p6).

Option agreement extension

NIC also recently announced amendments to the terms of its Collaboration and Subscription Agreement (CSA) covering the Hengjaya Nickel Lines (HNI) with its operating partner, Shanghai Decent Investment (SDI) as follows:

1) NIC has agreed to limit its contractual option to further equity interest in HNI to a maximum of 80% (previously 100%); and
2) Extended the option period during which NIC can acquire further equity interest in HNI to 30 November 2020 (previously 31 January 2020).

These changes align the terms of the CSA governing the HNI partnership with those governing the RNI partnership.

In our view both these changes are in NIC's interests. There is a good argument that SDI keeping some 'skin in the game' in both projects is preferable to NIC holding 100% ownership – notwithstanding that there are comprehensive terms around parity of service across all RKEF lines at the IMIP spelt out in the CSA's. Secondly, the extension of the period offers greater financial flexibility to NIC in terms the timing and funding of it increasing its interest.

Changes to our forecasts

Beyond updating our forecasts for the FY19 financial result and rolling our model forward, we have made the following changes to our modelled assumptions:

- Increased our Ni in NPI grade assumptions to an average 13.5% for the balance of FY20, reflecting the consistently high Ni in NPI grades being achieved;
- Increased our Ni in NPI grade assumptions to an average 13.0% for FY21 and FY22, again reflecting the actual performance to date. At this point we leave our longer term grade assumption at 11.0% Ni in NPI; and
- Marginally increase our NPI production forecast, reflecting a degree of throughput increase contributing to the production outperformance to date.

We have also updated our ore mining forecasts at the Hengjaya Mine, which had previously been linked to NPI production from the RKEF lines. The outperformance was overstating our ore production, hence the reduction in our FY20 ore mining forecasts.

The Ni in NPI production increases and marginally lower costs drive material earnings and valuation upgrades. We now forecast FY20 NPAT of US$154m (up 13%) and FY21 NPAT of US$191m (up 20%). Our NPV-based valuation increases by 32% to $1.24/sh.

Following the strong FY19 financial result which demonstrated positive underlying EBITDA and profitability, we have also removed our Speculative Risk rating. Operating cash flows are also positive, although minor. We point out that sales from Ranger were not booked until post period-end and lagging payment terms are reflected in this.

With upside of 77.1% from the last closing price, we retain our Buy recommendation, with a standard risk rating.

Despite the recent share price appreciation, NIC continues to trade on a relatively low FY20 P/E of just 5.1x – in our view good value for what is in many respects a high growth industrial story.

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

Table 2 - Changes to our FY forecasts

	Previous			New			Change		
Year end 30 June	**Jun-20**	**Jun-21**	**Jun-22**	**Jun-20**	**Jun-21**	**Jun-22**	**Jun-20**	**Jun-21**	**Jun-22**
Prices & currency									
Nickel price (US$/lb)	6.80	7.45	7.85	6.80	7.45	7.85	0%	0%	0%
Nickel price (US$/t)	14,991	16,424	17,306	14,991	16,424	17,306	0%	0%	0%
US$/A$	0.70	0.72	0.73	0.70	0.72	0.73	0%	0%	0%
Production & costs									
Ore mined (Mt, 100%)	1,620,252	1,564,545	1,564,545	1,170,000	1,560,000	1,560,000	-28%	0%	0%
Nickel in ore (t, 100%)	29,165	28,080	28,080	21,060	28,080	28,080	-28%	0%	0%
Nickel in ore (attributable)	20,475	17,690	15,725	14,742	17,690	15,725	-28%	0%	0%
RKEF NPI production (t, 100%)	280,000	300,000	300,000	290,808	304,615	304,615	4%	2%	2%
Contained nickel (t, 100%)	34,175	33,000	33,000	39,190	39,600	39,600	15%	20%	20%
Contained nickel (t, attributable)	20,505	19,800	19,800	23,514	23,760	23,760	15%	20%	20%
Cash costs (US$/t Ni)	7,779	7,922	8,120	7,731	7,873	8,070	-1%	-1%	-1%
AISC (US$/t Ni)	7,922	8,073	8,275	7,855	7,998	8,198	-1%	-1%	-1%
Earnings									
Revenue (attributable, US$m)	333	347	362	368	411	429	11%	18%	18%
EBITDA (attributable, US$m)	151	171	183	170	204	219	12%	20%	20%
NPAT (reported, attributable, US$m)	136	158	176	154	191	212	13%	20%	20%
EPS (reported) (Acps)	12	12	13	14	16	17	13%	31%	30%
PER (x)	5.7	5.7	5.2	5.1	4.4	4.0	(0.7)	(1.3)	(1.2)
EPS growth (%)	nm	0%	10%	95%	15%	10%	nm	15%	0%
DPS (Acps)	-	-	-	-	-	-	na	na	na
Yield	0%	0%	0%	0%	0%	0%	0%	0%	0%
NPV (A$/sh)	0.94	1.16	1.27	1.24	1.43	1.56	32%	23%	23%
Price Target (A$/sh)	**0.94**			**1.24**			**32%**		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Upcoming catalysts

Upcoming catalysts for NIC include:

- Further production updates on ramp-up of the Hengjaya and Ranger Nickel RKEF lines. Both the Hengjaya and Ranger lines have now achieved nickel production above nameplate and our long-term steady state assumptions in August 2019. Ongoing updates will reinforce the sustainability of these production levels;
- The release of NIC's September 2019 quarterly production and cost report, around late October 2019; and
- Indications on the timing of the acquisition of a further 20% interest (to lift ownership to 80%) in the Hengjaya and Ranger projects.

NIC valuation and key metrics at spot prices

Below we have provided a summary of key metrics and our valuation for NIC at current spot prices of US$8.23/lb Ni (US$18,150/t) and AUD:USD exchange rate of 0.68.

NIC presents as attractively valued at spot prices, on a forward P/E of 3.4x (vs base case of 4.5x) and the fully diluted valuation of $1.64/sh offers upside of 134% from the last closing price.

Table 3 – Attributable data – Nickel Mines Ltd at spot prices

Year ending 30 June	Unit	2018a	2019a	2020e	2021e	2022e
Revenues	US$m	10.8	52.0	440.8	465.2	473.8
EBITDA	US$m	(1.2)	13.5	242.7	258.8	264.2
NPAT	US$m	(3.3)	65.5	226.6	246.8	260.4
Net distributable cash flow	US$m	0.0	44.4	227.1	225.1	233.1
EV/EBITDA	x	nm	58.0	3.1	2.9	2.8
PER	x	nm	9.9	3.4	3.2	3.0
P/FCF	x	nm	nm	nm	3.5	3.4

SOURCE: BELL POTTER SECURITIES ESTIMATES

Table 4 - Sum of the parts valuation at spot prices

Valuation	Now		+12 months	
Sum-of-the-parts	**A$m**	**A$/sh**	**A$m**	**A$/sh**
RKEF (NPV12)	2,071.3	1.24	2,429.0	1.46
Hengjaya Mine (NPV12)	63.9	0.04	76.3	0.05
Other exploration	25.0	0.02	25.0	0.02
Corporate overheads	(18.6)	(0.01)	(18.8)	(0.01)
Subtotal (EV)	2,141.6	1.29	2,511.5	1.51
Net cash (debt)	71.4	0.04	217.2	0.13
Total (undiluted)	**2,213.0**	**1.33**	**2,728.7**	**1.64**
Dilutive effect of options		-		-
Add cash from options	-	-	-	-
Total (diluted)	**2,213.0**	**1.33**	**2,728.7**	**1.64**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Sensitivity Analysis

The tables below set out a range of valuations (undiluted Enterprise Value, +12 months) and EBITDA (converted to A$m) we forecast based on varying our nickel price and operating cost (OPEX) assumptions.

Table 5 – NIC Enterprise Valuation vs nickel price and OPEX sensitivities (A$m)

Nickel price	Costs -10%	BPe	Costs +10%
SPOT	$2,701.1	$2,511.5	$2,321.9
+10% (US$8.87/lb LT)	$2,448.3	$2,271.9	$2,095.5
BPe (US$8.06/lb LT)	$2,079.5	**$1,903.1**	$1,726.7
-10% (US$7.26/lb LT)	$1,710.1	$1,533.7	$1,357.3
-20% (US$6.45/lb LT)	$1,323.9	$1,147.5	$971.1

SOURCE: BELL POTTER SECURITIES ESTIMATES

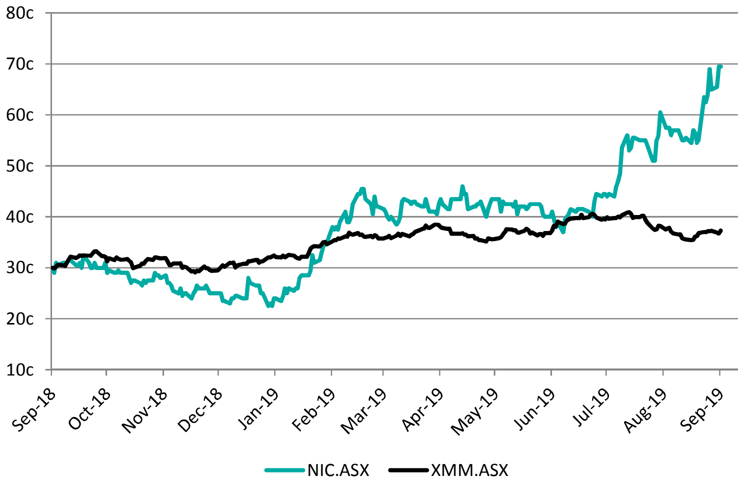
Table 6 – NIC Attributable EBITDA vs nickel price and OPEX sensitivities (A$m)

Nickel price	Costs -10%	BPe	Costs +10%
SPOT	$408.1	$380.6	$353.1
+10% (US$8.25/lb LT)	$362.7	$336.7	$310.7
BPe (US$8.06/lb LT)	$309.6	**$283.6**	$257.6
-10% (US$7.26/lb LT)	$256.4	$230.4	$204.5
-20% (US$6.45/lb LT)	$198.5	$172.5	$146.5

SOURCE: BELL POTTER SECURITIES ESTIMATES

NIC vs the ASX Metals and Mining Index

Figure 3 - NIC relative share price performance vs ASX Metals and Mining Index (XMM)



SOURCE: IRESS

Nickel Mines Limited (NIC)

Company description: high grade, steady state producer

Nickel Mines Limited ('Nickel Mines' or 'NIC') is a newly listed ASX company, formed in 2007. Its operations are focused in Central Sulawesi, Indonesia, where it holds a 60% interest two Rotary Kiln Electric Furnace (RKEF) lines (the Hengjaya lines) and a 17% interest in a further two RKEF lines (the 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), in Central Sulawesi, Indonesia. First production from the Hengjaya Lines was achieved on 31 January 2019 and these exceeded their nameplate production run-rate of 16ktpa nickel in NPI (100% basis) during the June quarter 2019. The Ranger Lines commenced production during the June 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 $1.24/sh (from Spec. Buy, $0.94)

As a result of our upgraded forecasts we now estimate FY20 NPAT of US$154m (up 13%) and FY21 NPAT of US$191m (up 20%). Our NPV-based valuation increases by 32% to $1.24/sh. The strong FY19 financial result, with positive underlying EBITDA and earnings, also allows us to remove our Speculative rating.

Valuation: $1.24/sh

Our 12-month forward NIC valuation incorporates DCF models of its attributable interests in the Hengjaya laterite nickel ore mine (HM), a 60% interest in the two Hengjaya Nickel RKEF lines and a 60% 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% from FY2023) in the Hengjaya laterite nickel ore mine.

We also include a notional value for exploration and development projects, an estimate of corporate overhead costs and NIC's last reported net debt position. Our valuation is calculated on a fully diluted basis. Following the latest update, our valuation stands at $1.24/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.
- **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 13 September 2019

Recommendation	Buy
Price	$0.70
Target (12 months)	$1.24

Table 7 - Financial summary

PROFIT AND LOSS						
Year ending 30 June	**Unit**	**2018a**	**2019a**	**2020e**	**2021e**	**2022e**
Revenue	US$m	13.6	64.9	608.3	682.1	717.6
Expense	US$m	(15.1)	(44.5)	(325.5)	(341.5)	(350.0)
EBITDA	**US$m**	**(1.6)**	**20.4**	**282.8**	**340.6**	**367.6**
Depreciation	US$m	(0.1)	(6.8)	(17.2)	(18.0)	(18.0)
EBIT	US$m	(1.6)	13.6	265.5	322.6	349.6
Net interest expense	US$m	(0.7)	(0.0)	(3.9)	(0.4)	6.0
Unrealised gains (Impairments)	US$m	-	58.3	-	-	-
Other	US$m	-	-	-	-	-
PBT	**US$m**	**(2.3)**	**71.9**	**261.7**	**322.2**	**355.7**
Tax expense	US$m	(0.7)	(0.1)	(2.3)	(3.6)	(3.7)
Consolidated profit (loss) for the year	US$m	(2.9)	71.8	259.3	318.6	351.9
Non-Controlling Interest	US$m	0.4	6.3	105.3	128.0	139.5
Attributable NPAT (reported)	**US$m**	**(3.3)**	**65.5**	**154.1**	**190.6**	**212.4**
NPAT (underlying)	US$m	(3.3)	7.2	154.1	190.6	212.4

CASH FLOW						
Year ending 30 June	**Unit**	**2018a**	**2019a**	**2020e**	**2021e**	**2022e**
OPERATING CASHFLOW						
Receipts	US$m	13.5	33.4	591.1	674.7	714.1
Payments	US$m	(21.5)	(28.4)	(286.4)	(337.5)	(347.9)
Tax	US$m	-	(1.2)	0.1	(2.3)	(3.6)
Net interest	US$m	0.1	0.2	(3.9)	(0.4)	6.0
Other	US$m	(0.3)	-	(0.4)	-	-
Operating cash flow	**US$m**	**(8.2)**	**4.1**	**300.5**	**334.4**	**368.7**
INVESTING CASHFLOW						
Property, plant and equipment	US$m	(0.7)	(19.5)	(124.3)	(2.9)	(2.9)
Mine development	US$m	-	-	-	-	-
Exploration & evaluation	US$m	-	-	(0.4)	(0.4)	(0.4)
Other	US$m	(50.0)	(121.1)	-	-	-
Investing cash flow	**US$m**	**(50.7)**	**(140.6)**	**(124.7)**	**(3.3)**	**(3.3)**
Free Cash Flow	*US$m*	*(58.9)*	*(136.5)*	*175.8*	*331.1*	*365.4*
FINANCING CASHFLOW						
Share issues/(buy-backs)	US$m	73.9	183.6	39.6	-	-
Debt proceeds	US$m	-	-	80.0	-	-
Debt repayments	US$m	(13.2)	(2.0)	-	(16.0)	(21.3)
Distributions to non-controlling interests	US$m	-	15.0	(103.2)	(124.0)	(134.6)
Dividends	US$m	-	-	-	-	-
Other	US$m	(1.8)	(10.8)	-	-	-
Financing cash flow	**US$m**	**59.0**	**185.8**	**16.4**	**(140.0)**	**(155.9)**
Change in cash	*US$m*	*0.0*	*49.3*	*192.3*	*191.1*	*209.4*

BALANCE SHEET						
Year ending 30 June	**Unit**	**2018a**	**2019a**	**2020e**	**2021e**	**2022e**
ASSETS						
Cash & short term investments	US$m	0.8	49.0	241.3	432.4	641.8
Accounts receivable	US$m	0.4	43.7	60.8	68.2	71.8
Property, plant & equipment	US$m	76.6	340.1	447.5	432.8	418.1
Mine development expenditure	US$m	-	-	-	-	-
Exploration & evaluation	US$m	-	-	0.1	0.1	0.1
Other	US$m	1.6	99.2	99.2	99.2	99.2
Total assets	US$m	**79.4**	**531.9**	**848.9**	**1,032.6**	**1,230.9**
LIABILITIES						
Accounts payable	US$m	2.9	42.2	81.4	85.4	87.5
Income tax payable	US$m	0.7	0.3	2.3	3.6	3.7
Borrowings	US$m	-	4.2	84.2	68.2	46.8
Other	US$m	0.8	30.4	30.4	30.4	30.4
Total liabilities	US$m	**4.3**	**77.2**	**198.3**	**187.5**	**168.5**
SHAREHOLDER'S EQUITY						
Share capital	US$m	103.1	275.9	315.5	315.5	315.5
Reserves	US$m	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
Retained earnings	US$m	(29.3)	36.3	190.3	380.9	593.3
Total equity	US$m	**73.2**	**311.6**	**505.2**	**695.8**	**908.2**
Weighted average shares	m	461.8	1,324.4	1,595.5	1,665.5	1,665.5

CAPITAL STRUCTURE			
Shares on issue	m		1,385.1
Total shares on issue	**m**	(add 280.3m escrow and placement shares)	**1,665.5**
Share price	**A$/sh**		**0.700**
Market capitalisation	A$m		1,165.8
Net cash	A$m		71.4
Enterprise value (undiluted)	**A$m**		**1,094.4**
Options outstanding (m)	m		0.0
Options (in the money)	m		0.0
Issued shares (diluted for options)	m		1,665.5
Market capitalisation (diluted)	A$m		1,165.8
Net cash + options	A$m		71.4
Enterprise value (diluted)	**A$m**		**1,094.4**

MAJOR SHAREHOLDERS		
Shareholder	**%**	**m**
Shanghai Decent (SDI)	18.1%	301.7
BlackRock Investment Management	9.7%	161.7
Shanghai Wanlu	9.0%	149.3
Directors and Management	8.3%	137.9
Regal FM	7.1%	118.0

FINANCIAL RATIOS						
Year ending 30 June	**Unit**	**2018a**	**2019a**	**2020e**	**2021e**	**2022e**
VALUATION						
Attributable NPAT	US$m	(3.3)	65.5	154.1	190.6	212.4
Attributable NPAT	A$m	(4.4)	93.6	220.1	264.7	291.0
Reported EPS	Ac/sh	(0.9)	7.1	13.8	15.9	17.5
Adjusted EPS	Ac/sh	(0.9)	0.8	13.8	15.9	17.5
EPS growth	%	nm	nm	95%	15%	10%
PER	x	nm	9.9x	5.1x	4.4x	4.0x
DPS	Ac/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	Ac/sh	(16.9)	(14.7)	15.7	27.6	30.1
FCF yield	%	-24%	-21%	22%	39%	43%
P/FCFPS	x	-4.2x	-4.8x	4.4x	2.5x	2.3x
EV/EBITDA	x	-482.8x	36.7x	2.7x	2.2x	2.0x
EBITDA margin	%	nm	31%	46%	50%	51%
EBIT margin	%	nm	21%	44%	47%	49%
Return on assets	%	-5%	23%	38%	34%	31%
Return on equity	%	-8%	37%	63%	53%	44%
LIQUIDITY & LEVERAGE						
Net debt (cash)	$m	-	-	(157)	(364)	(595)
ND / E	%	0%	0%	-31%	-52%	-66%
ND / (ND + E)	%	0%	0%	-45%	-110%	-190%
EBITDA / Interest	x	-2.4x	569.2x	73.0x	796.1x	nm

ATTRIBUTABLE DATA - NICKEL MINES LTD						
Year ending 30 June	**Unit**	**2018a**	**2019a**	**2020e**	**2021e**	**2022e**
Revenues	US$m	10.8	52.0	368.2	410.6	428.7
EBITDA	US$m	(1.2)	13.5	170.1	204.2	219.2
NPAT	US$m	(3.3)	65.5	154.1	190.6	212.4
Net distributable cash flow	US$m	0.0	44.4	173.1	172.0	188.5
EV/EBITDA	x	nm	58.0	4.5	3.9	3.6
PER	x	nm	9.9	5.1	4.4	4.0
P/FCF	x	nm	nm	nm	4.9	4.5

ORE RESERVE AND MINERAL RESOURCE			
Hengjaya Nickel Mine (HM)	**Mdmt**	**% Ni**	**t Ni**
Mineral Resources			
Measured	0.700	1.80%	12,600
Indicated	15.000	1.90%	285,000
Inferred	22.000	1.80%	396,000
Total	**38.000**	**1.80%**	**678,000**

ASSUMPTIONS - Prices						
Year ending 30 June avg	**Unit**	**2018a**	**2019a**	**2020e**	**2021e**	**2022e**
Nickel	US$/lb	$5.65	$5.60	$6.80	$7.45	$7.85
Nickel	US$/t	$12,456	$12,343	$14,991	$16,424	$17,306
Currency						
AUD:USD		0.78	0.72	0.70	0.72	0.73

ASSUMPTIONS - Production & costs						
Year ending 30 June	**Unit**	**2018a**	**2019a**	**2020e**	**2021e**	**2022e**
Hengjaya Mine						
Ore mined	wmt	391,362	484,268	1,170,000	1,560,000	1,560,000
Ore grade	% Ni	2.1%	2.0%	1.8%	1.8%	1.8%
Nickel in ore	t Ni	8,062	5,977	21,060	28,080	28,080
Nickel in ore (attributable)	t Ni	6,450	4,782	14,742	17,690	15,725
RKEF (IMIP)						
NPI production	t	-	42,106	290,808	304,615	304,615
Contained nickel	t Ni	-	5,788	39,190	39,600	39,600
Contained nickel (attributable)	t Ni	-	3,339	23,514	23,760	23,760
Costs						
Cash costs	US$/t Ni	-	$7,710	$7,731	$7,873	$8,070
All-in-Costs (AIC)	US$/t Ni	-	$8,125	$7,855	$7,998	$8,198

VALUATION						
Ordinary shares (m)						**1,665.5**
Options in the money (m)						-
Total shares diluted (m)						**1,665.5**
Valuation	**Now**		**+12 months**		**+24 mths**	
Sum-of-the-parts	**A$m**	**A$/sh**	**A$m**	**A$/sh**	**A$m**	**A$/sh**
RKEF (NPV12)	1,533.2	0.92	1,826.3	1.10	1,936.4	1.16
Hengjaya Mine (NPV12)	58.7	0.04	70.6	0.04	72.6	0.04
Other exploration	25.0	0.02	25.0	0.02	25.0	0.02
Corporate overheads	(18.6)	(0.01)	(18.8)	(0.01)	(18.9)	(0.01)
Subtotal (EV)	1,598.4	0.96	1,903.1	1.14	2,015.0	1.21
Net cash (debt)	71.4	0.04	157.1	0.09	364.2	0.22
Total (undiluted)	**1,669.8**	**1.00**	**2,060.2**	**1.24**	**2,379.2**	**1.43**
Dilutive effect of options		-		-		-
Add cash from options	-	-	-	-	-	-
Total (diluted)	**1,669.8**	**1.00**	**2,060.2**	**1.24**	**2,379.2**	**1.43**

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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