

### Analyst

David Coates 612 8224 2887

### Authorisation

Peter Arden 613 9235 1833

# Nickel Mines Ltd (NIC)

## Site visit showcases Tier 1 asset

### Recommendation

**Buy** (unchanged)

### Price

**\$0.425**

### Valuation

**\$0.72** (previously \$0.64)

### Risk

**Speculative**

### GICS Sector

Materials

### Expected Return

Capital growth	<b>69.4%</b>
Dividend yield	<b>0.0%</b>
Total expected return	<b>69.4%</b>

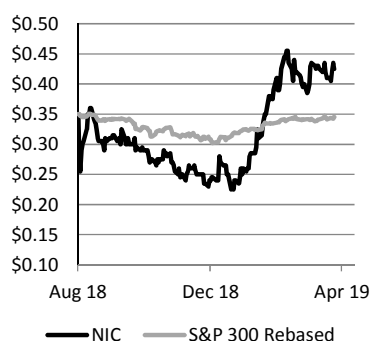
### Company Data & Ratios

Enterprise value	<b>\$569.1m</b>
Market cap	<b>\$589.9m</b>
Issued capital	<b>1,388.0m</b>
Free float	<b>55%</b>
Avg. daily val. (52wk)	<b>\$423,000</b>
12 month price range	<b>\$0.22-\$0.46</b>

### Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.42	0.23	
Absolute (%)	2.4	88.9	
Rel market (%)	1.2	78.8	

### Absolute Price



SOURCE: IRESS

### Production ramping up to nameplate by end CY19

We recently participated in a site visit to the Indonesia Morowali Industrial Park (IMIP) in Indonesia, where development of NIC's Rotary Kiln Electric Furnace (RKEF) lines is advancing through construction, commissioning and production ramp-up. The progress made since our last visit is nothing short of extraordinary, with the first two lines now in production and the final two nearing completion. This is tracking in-line with the latest schedule, which is approximately 6 months ahead of the original plan. It is also consistent with our current modelled assumptions, to which we apply a degree of conservatism, assuming the first full quarter of nameplate production will be achieved in the March quarter of 2020.

### Income tax relief granted for the Ranger RKEF lines

In a further positive development for NIC, corporate income tax relief has been granted for its 17% owned Ranger RKEF NPI production lines. The tax concessions mirror those previously granted to the Company's 60% owned Hengjaya Nickel project, the key terms of which include a corporate income tax reduction of 100% for a period of seven tax years and a corporate income tax reduction of 50% of payable income tax for a period of two tax years, following the initial seven year period. Over the nine year term of the agreement we estimate attributable tax savings in the order of US\$46m. NIC holds options to acquire up to 80% of the Ranger lines on a pro-rata valuation of US\$280-\$300m. Now, with the favourable tax concessions, NIC has the opportunity to acquire exposure to materially increased free cash flows for the same price.

### Investment thesis – Speculative Buy, valuation \$0.72/sh

The latest updates, together with the site visit and incorporation of the favourable tax rates lifts our forecast FY20 and FY21 earnings 12% each to US\$95m and US\$110m respectively. Our NPV-based, 12-month forward valuation is up 13% to A\$0.72/sh. NIC remains one of our top picks in the sector on excellent value vs our Valuation, a strong production growth profile and exposure to a globally significant Tier 1 asset.

### Earnings Forecast

Year end 30 June	2018a	2019e	2020e	2021e
Sales (A\$m)	14	24	224	249
EBITDA (A\$m)	(2)	6	106	120
NPAT (reported) (A\$m)	(3)	(3)	95	110
NPAT (adjusted) (A\$m)	(3)	(3)	95	110
EPS (adjusted) (cps)	(0.9)	(0.4)	9.1	10.6
EPS growth (%)	nm	nm	nm	15%
PER (x)	nm	nm	4.6	4.0
FCF Yield (%)	-40%	-35%	24%	26%
EV/EBITDA (x)	(260.8)	69.4	3.8	3.4
Dividend (cps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-8%	-2%	37%	31%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Site visit showcases Tier 1 asset

## Production ramping up to nameplate by end CY19

We recently participated in a site visit to the Indonesia Morowali Industrial Park (IMIP) in Sulawesi, Indonesia, where development of NIC’s Rotary Kiln Electric Furnace (RKEF) lines is advancing through the construction, commissioning and production ramp-up stages. NIC currently holds a 60% interest in the two Hengjaya RKEF lines and a 17% interest in the two Ranger RKEF lines. They are being constructed and operated by NIC’s equity partner, Shanghai Decent Investments (SDI), a subsidiary of Tsingshan, the world’s largest stainless steel producer.

Our last visit to site was approximately 12 months ago and the progress made since then is nothing short of extraordinary, with the first two lines now in production. The development of NIC’s RKEF lines is tracking in-line with the last reported schedule, which is approximately 6 months ahead of the original plan. Figure 1 (below) shows the planned site of the Hengjaya and Ranger RKEF lines in March 2018 when construction was just commencing. Figures 2, 3 and 4 (below) show the Hengjaya and Ranger lines as at March 2019, where construction of the Ranger lines is nearing completion and production has commenced from the Hengjaya lines.

Figure 1 - NIC RKEF site March 2018



SOURCE: BELL POTTER SECURITIES

Figure 2 - NIC RKEF site March 2019 – Ranger lines in foreground



SOURCE: BELL POTTER SECURITIES

Figure 3 - NIC RKEF site March 2019 – Hengjaya lines



SOURCE: BELL POTTER SECURITIES

Figure 4 - NIC RKEF site March 2019 – Hengjaya lines



SOURCE: BELL POTTER SECURITIES

The first of the Hengjaya RKEF lines (NIC 60%) tapped its first nickel in NPI on January 31 2019, with the second line following in early March, just ahead of our visit. Each line is planned to ramp-up to 80% of its 75ktpa nameplate capacity over a 6-8 week period which would imply by the end of May 2019. Ramp up to full capacity is expected to take a further 6-8 weeks which would result in the two Hengjaya lines being at full production during the September quarter of 2019.

The two Ranger RKEF lines (NIC 17%) are expected to achieve first production at approximately six week intervals after the Hengjaya lines, i.e. both the Ranger lines should have achieved first production by mid-June, be ramped up to 80% of nameplate by mid-August and be at full production capacity by October 2019. At NIC's current ownership levels that would equate to production of 12ktpa nickel in NPI.

This is consistent with our current modelled assumptions, to which we apply a degree of conservatism, assuming the first full quarter of nameplate production to be achieved in the March quarter of 2020.

**Table 1 – Indicative RKEF ramp-up schedule as per Bell Potter assumptions**

RKEF Line ramp-up	Line 1	Line 2	Line 3	Line 4
First production	01-Feb-19	15-Mar-19	26-Apr-19	07-Jun-19
+8 weeks 80%	29-Mar-19	10-May-19	21-Jun-19	02-Aug-19
+8 weeks 100%	24-May-19	05-Jul-19	16-Aug-19	27-Sep-19

SOURCE: BELL POTTER SECURITIES ESTIMATES

We also point out that this is establishing an impressive track record of delivery at the IMIP and demonstrating that the risks typically associated with a project during these stages has been significantly mitigated by the experience of having previously brought 20 such RKEF lines into production on this site. In our view this remains an opportunity for a prospective investor in NIC, in that we believe the market continues to apply an overly conservative discount to NIC's share price on the perceived risk of project delivery.

### Operating costs

With production only just commencing from NIC's RKEF lines, no operating costs have been reported. However, a reasonable indication can be taken from the operating costs of the existing RKEF lines being operated by SDI at the IMIP. No specific costs were reported but All-In-Costs in the range of US\$8,000-US\$8,500/t were described as representative of current performance.

No real detail was provided but power costs, which are a key input, have been approximately 10% below forecasts at US6c/kWh (vs US6.5-7.0c/kWh). This is a result of economies of scale and lower prices for Indonesian thermal coal. All power is generated on site by coal-fired power stations with a current installed capacity of 2.9GW, with a further 0.95GW under construction. To put that into context, the total installed baseload coal-fired power generation capacity for all of SE Queensland is 3.5GW.

### Local impacts

It is also clear that the development and expansion of the IMIP has had a significant impact on the local economy. The facility employs ~3,000 Chinese workers as part of the construction workforce but this is dwarfed by the 25,000-30,000 local Indonesian employees at the operation. Travelling through the local area it is clear that there has been a lot of recent growth, with numerous markets, service providers and fresh construction.

We view this as a further mitigating factor around perceived jurisdiction risk in Indonesia. The local economic contribution is recognised in part by the granting of corporate income tax relief, for which this is one of several criteria. Combined with the substantial investment (of ~US\$7 billion to date) and mutual Chinese-Indonesian interests attached to the project

we see the risks attached to the IMIP as relatively low compared to mining projects. The IMIP is an industrial facility and not subject to the compulsory divestment clauses that apply to mining operations in Indonesia.

### Income tax relief granted for the Ranger RKEF lines

In a further positive development for NIC, corporate income tax relief has been granted for its 17% owned Ranger RKEF NPI production lines. The tax concessions mirror those previously granted to the Company's 60% owned Hengjaya Nickel project, the key terms of which comprise:

- **Corporate Income Tax Reduction of 100%** for a period of seven tax years, starting from the tax year in which commercial production is achieved; and
- **Corporate Income Tax Reduction of 50%** of payable income tax for a period of two tax years, starting from the end of the initial seven year period.

We point out that this exemption is granted within the framework of Indonesia's existing tax law. It is not a special provision for the IMIP but is based on criteria around project scale and national and local economic impacts.

This is clearly an excellent outcome for NIC, resulting in an effective corporate income tax rate of 0% over the first 7 years and 12.5% for years 8 and 9. This is the same as for the Hengjaya RKEF lines which were granted this tax relief in November 2018, setting a clear precedent for the Ranger Lines, which has now been realised. This boosts available free cash flows and hence NIC's valuation.

We previously forecast tax expenses in FY20 and FY21 of US\$7.8m and US\$8.8m, the vast bulk of which was attributable to the Ranger RKEF lines that are now subject to this tax relief agreement. We now forecast tax expenses of US\$3.2m in FY20 (cut 59%) and US\$3.5m in FY21 (cut 60%). Over the nine year term of the agreement we estimate tax savings in the order of US\$46m (on an undiscounted, 17% attributable basis).

**Table 2 - Estimated benefits from tax relief agreement (attributable basis)**

	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23	Jun-24	Jun-25	Jun-26	Jun-27	Jun-28	Total
Previous tax expense estimate (US\$m)	\$1.5	\$7.8	\$8.8	\$9.5	\$7.9	\$8.2	\$8.4	\$8.6	\$21.1	\$21.6	
Current tax expense estimate (US\$m)	\$1.6	\$3.2	\$3.5	\$3.7	\$1.9	\$2.0	\$2.0	\$2.1	\$18.4	\$18.9	
<b>Difference (US\$m)</b>	<b>-\$0.1</b>	<b>\$4.6</b>	<b>\$5.3</b>	<b>\$5.8</b>	<b>\$6.0</b>	<b>\$6.2</b>	<b>\$6.4</b>	<b>\$6.5</b>	<b>\$2.7</b>	<b>\$2.8</b>	<b>\$46.2</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

At present, NIC holds a 17% interest in the Ranger RKEF lines, with options in place to acquire up to 80% on a pro-rata valuation of US\$280-\$300m (dependent on timing). We already view these as hugely value accretive growth options. Now, with the favourable tax concessions, NIC has the opportunity to acquire exposure to materially increased free cash flows for the same price. We have previously modelled the tax concessions to add US\$270m (on an undiscounted, 100% basis) to the free cash flows of NIC's Hengjaya RKEF lines.



## Changes to our forecasts

Following our recent site visit and the granting of corporate income tax relief to the Ranger RKEF lines, we make the following changes to our modelled assumptions:

- Apply the concessional corporate income tax rates to the Ranger RKEF lines, from FY19 through to FY28;
- In recognition of the commencement of production from the Hengjaya RKEF lines and the successful delivery track record to date, we remove our development stage discount and now apply 100% of the project NPV to our valuation; and
- Apply a payability factor to nickel in NPI of 98% (up from 95%) in recognition that payabilities at the IMIP have averaged 95-105% for nickel in NPI.

The resulting changes to our forecasts and valuation are summarised in the table below:

Table 3 - Changes to our FY forecasts									
Year end 30 June	Previous			New			Change		
	Jun-19	Jun-20	Jun-21	Jun-19	Jun-20	Jun-21	Jun-19	Jun-20	Jun-21
<b>Prices &amp; currency</b>									
Nickel price (US\$/lb)	6.08	7.15	7.45	6.08	7.15	7.45	0%	0%	0%
Nickel price (US\$/t)	13,411	15,763	16,424	13,411	15,763	16,424	0%	0%	0%
US\$/A\$	0.73	0.75	0.75	0.73	0.75	0.75	0%	0%	0%
<b>Production &amp; costs</b>									
Ore mined (Mt)	610,516	1,460,242	1,564,545	610,516	1,460,242	1,564,545	0%	0%	0%
Nickel in ore	7,277	16,559	17,742	7,277	16,559	17,742	0%	0%	0%
Nickel in ore (attributable)	5,821	11,591	11,177	5,821	11,591	11,177	0%	0%	0%
RKEF NPI production	12,500	280,000	300,000	12,500	280,000	300,000	0%	0%	0%
Contained nickel	1,375	30,800	33,000	1,375	30,800	33,000	0%	0%	0%
Contained nickel (attributable)	529	11,858	12,705	529	11,858	12,705	0%	0%	0%
Cash costs (US\$/t Ni)	-	7,805	7,974	-	7,805	7,974	na	0%	0%
AISC (US\$/t Ni)	-	7,856	8,023	-	7,856	8,023	na	0%	0%
<b>Earnings</b>									
Revenue (attributable, US\$m)	21	218	243	21	224	249	1%	3%	3%
EBITDA (attributable, US\$m)	6	100	114	6	106	120	4%	6%	6%
NPAT (reported, attributable, US\$m)	(3)	85	98	(3)	95	110	na	12%	12%
EPS (reported) (Acps)	(0)	8	9	(0)	9	11	na	12%	12%
PER (x)	(106.1)	5.2	4.5	(114.6)	4.6	4.0	(8.5)	(0.6)	(0.5)
EPS growth (%)	nm	nm	16%	nm	nm	15%	nm	nm	0%
DPS (Acps)	-	-	-	-	-	-	na	na	na
Yield	0%	0%	0%	0%	0%	0%	0%	0%	0%
NPV (A\$/sh)	0.53	0.64	0.87	0.60	0.72	0.97	13%	12%	11%
<b>Price Target (A\$/sh)</b>		0.64			0.72			13%	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Incorporating the favourable tax rates into our modelled assumptions lifts our forecast FY20 and FY21 earnings 12% each to US\$95m and US\$110m respectively. Our NPV-based, 12-month forward valuation is up 13% to A\$0.72/sh.

## Upcoming catalysts

Upcoming catalysts for NIC include:

- Further updates on the progress of construction and commissioning of the Hengjaya and Ranger RKEF lines, possibly reporting first production from the Ranger lines by end April 2019;
- The March quarter production and cost report in April 2019;
- The targeted ramp-up to 80% of nameplate production for both the Hengjaya lines during May 2019;
- The targeted ramp-up to 80% of nameplate production for both the Ranger lines around the end of the September quarter 2019; and
- Updates on the funding to acquire the remaining optioned interests in the Hengjaya and Ranger RKEF lines.

# 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 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. Construction of the NIC's two RKEF lines is advanced and commissioning on track for the end of the June quarter 2019, after which production is planned to ramp up to a targeted run-rate of 16ktpa nickel in NPI (100% basis).

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 – Speculative Buy, valuation \$0.72/sh

The latest updates, together with the site visit and incorporation of the favourable tax rates lifts our forecast FY20 and FY21 earnings 12% each to US\$95m and US\$110m respectively. Our NPV-based, 12-month forward valuation is up 13% to A\$0.72/sh. NIC remains one of our top picks in the sector on excellent value, strong production growth profile and exposure to a globally significant Tier 1 asset.

## Valuation: \$0.72/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 17% 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 under construction 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 \$0.72/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.



Table 4 - Financial summary

PROFIT AND LOSS						FINANCIAL RATIOS							
Year ending 30 June	Unit	2017a	2018a	2019e	2020e	2021e	Year ending 30 June	Unit	2017a	2018a	2019e	2020e	2021e
Revenue	US\$m	8.6	13.6	24.5	223.6	249.0	<b>VALUATION</b>						
Expense	US\$m	(11.9)	(15.1)	(18.6)	(117.8)	(129.0)	Attributable NPAT	US\$m	(3.8)	(3.3)	(3.0)	94.9	109.9
<b>EBITDA</b>	<b>US\$m</b>	<b>(3.3)</b>	<b>(1.6)</b>	<b>5.8</b>	<b>105.8</b>	<b>120.0</b>	Attributable NPAT	A\$m	(5.1)	(4.4)	(4.1)	126.5	146.5
Depreciation	US\$m	(0.1)	(0.1)	(1.2)	(5.4)	(5.8)	Reported EPS	Ac/sh	(1.6)	(0.9)	(0.4)	9.1	10.6
EBIT	US\$m	(3.4)	(1.6)	4.7	100.4	114.2	Adjusted EPS	Ac/sh	(1.6)	(0.9)	(0.4)	9.1	10.6
Net interest expense	US\$m	(0.5)	(0.7)	0.0	0.5	3.2	EPS growth	%	nm	nm	nm	nm	15%
Unrealised gains (Impairments)	US\$m	-	-	-	-	-	PER	x	nm	nm	nm	4.6x	4.0x
Other	US\$m	-	-	(7.3)	-	-	DPS	Ac/sh	-	-	-	-	-
<b>PBT</b>	<b>US\$m</b>	<b>(3.9)</b>	<b>(2.3)</b>	<b>(2.6)</b>	<b>100.9</b>	<b>117.4</b>	Franking	%	0%	0%	0%	0%	0%
Tax expense	US\$m	0.2	(0.7)	-	(3.2)	(3.5)	Yield	%	0%	0%	0%	0%	0%
Comprehensive loss for the year	US\$m	(3.7)	(2.9)	(2.6)	97.7	113.8	FCF/share	Ac/sh	(0.0)	(16.9)	(14.9)	10.4	11.2
Non-Controlling Interest	US\$m	0.1	0.4	(0.4)	(2.8)	(3.9)	FCF yield	%	0%	-40%	-35%	24%	26%
<b>Attributable NPAT (reported)</b>	<b>US\$m</b>	<b>(3.8)</b>	<b>(3.3)</b>	<b>(3.0)</b>	<b>94.9</b>	<b>109.9</b>	P/FCFPS	x	-3810.8x	-2.5x	-2.9x	4.1x	3.8x
NPAT (underlying)	US\$m	(3.8)	(3.3)	(3.0)	94.9	109.9	EV/EBITDA	x	-122.0x	-260.8x	69.4x	3.8x	3.4x
							EBITDA margin	%	nm	nm	24%	47%	48%
							EBIT margin	%	nm	nm	19%	45%	46%
							Return on assets	%	-27%	-5%	-2%	34%	28%
							Return on equity	%	2029%	-8%	-2%	37%	31%
							<b>LIQUIDITY &amp; LEVERAGE</b>						
							Net debt (cash)	\$m	-	-	(19)	(127)	(244)
							ND / E	%	0%	0%	-9%	-41%	-58%
							ND / (ND + E)	%	0%	0%	-10%	-69%	-138%
							EBITDA / Interest	x	-6.1x	-2.4x	nm	nm	nm
							<b>ATTRIBUTABLE DATA - NICKEL MINES LTD</b>						
							Year ending 30 June	Unit	2017a	2018a	2019e	2020e	2021e
							Revenues	US\$m	6.9	10.8	21.1	211.5	232.5
							EBITDA	US\$m	(2.7)	(1.2)	5.1	101.3	113.8
							NPAT	US\$m	(3.8)	(3.3)	(3.0)	94.9	109.9
							Net distributable cash flow	US\$m	0.1	0.0	16.6	97.1	105.3
							EV/EBITDA	x	nm	nm	79.1	4.0	3.6
							PER	x	nm	nm	nm	4.7	4.0
							P/FCF	x	nm	nm	nm	4.6	4.2
							<b>ORE RESERVE AND MINERAL RESOURCE</b>						
							Hengjaya Nickel Mine (HM)				Mdmt	% Ni	kt Ni
							Mineral Resources						
							Measured				0.700	1.80%	12,600
							Indicated				15,000	1.90%	285,000
							Inferred				22,000	1.80%	396,000
							<b>Total</b>				<b>38,000</b>	<b>1.80%</b>	<b>678,000</b>
							<b>ASSUMPTIONS - Prices</b>						
							Year ending 30 June avg	Unit	2017a	2018a	2019e	2020e	2021e
							Nickel	US\$/lb	\$4.60	\$5.65	\$6.08	\$7.15	\$7.45
							Nickel	US\$/t	\$10,141	\$12,456	\$13,411	\$15,763	\$16,424
							<b>Currency</b>						
							AUD:USD		0.75	0.78	0.73	0.75	0.75
							<b>ASSUMPTIONS - Production &amp; costs</b>						
							Year ending 30 June	Unit	2017a	2018a	2019e	2020e	2021e
							Hengjaya Mine						
							Ore mined	wmt	303,597	391,362	610,516	1,460,242	1,564,545
							Ore grade	% Ni	2.1%	2.1%	1.9%	1.8%	1.8%
							Nickel in ore	t Ni	6,254	8,062	7,277	16,559	17,742
							Nickel in ore (attributable)	t Ni	5,003	6,450	5,821	11,591	11,177
							RKEF (IMIP)						
							NPI production	t	-	-	12,500	280,000	300,000
							Contained nickel	t Ni	-	-	1,375	30,800	33,000
							Contained nickel (attributable)	t Ni	-	-	529	11,858	12,705
							<b>Costs</b>						
							Cash costs	US\$/t Ni	-	-	-	\$7,805	\$7,974
							All-in-Sustaining-Costs (AISC)	US\$/t Ni	-	-	-	\$7,856	\$8,023
							<b>VALUATION</b>						
							Ordinary shares (m)						1,388.0
							Options in the money (m)						-
							<b>Total shares diluted (m)</b>						<b>1,388.0</b>
							<b>Sum-of-the-parts</b>						
							RKEF (NPV12)	A\$m	912.8	0.66			
							Hengjaya Mine (NPV12)	A\$m	61.6	0.04			
							Other exploration	A\$m	25.0	0.02			
							Corporate overheads	A\$m	(18.6)	(0.01)			
							Subtotal	A\$m	980.7	0.71			
							Net cash (debt)	A\$m	20.8	0.01			
							<b>Total (undiluted)</b>		<b>1,001.5</b>	<b>0.72</b>			
							Dilutive effect of options		-	-			
							Add cash from options		-	-			
							<b>Total (diluted)</b>		<b>1,001.5</b>	<b>0.72</b>			
							<b>MAJOR SHAREHOLDERS</b>						
							Shareholder	%					m
							Directors and Management	13.7%					189.8
							Shanghai Decent (SDI)	11.6%					161.7
							Shanghai Wanlu	10.8%					149.3
							BlackRock Investment Management	9.9%					137.9
							Regal FM	5.1%					71.0

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.*

**Research Team**

Staff Member	Title/Sector	Phone	@bellpotter.com.au
TS Lim	Head of Research	612 8224 2810	tslim
<b>Industrials</b>			
James Filius	Industrials	613 9235 1612	jfilius
Sam Haddad	Industrials	612 8224 2819	shaddad
Alex McLean	Industrials	613 8224 2886	amclean
Chris Savage	Industrials	612 8224 2835	csavage
Jonathan Snape	Industrials	613 9235 1601	jsnape
Damien Williamson	Industrials	613 9235 1958	dwilliamson
<b>Healthcare/Biotech</b>			
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare/Biotech	612 8224 2849	tnjain
<b>Financials</b>			
TS Lim	Banks/Regionals	612 8224 2810	tslim
Lafitani Sotiriou	Diversified Financials/Fintech	613 9235 1668	Isotiriou
<b>Resources</b>			
Peter Arden	Resources	613 9235 1833	parden
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe

**Bell Potter Securities Limited**  
ACN 25 006 390 7721  
Level 29, 101 Collins Street  
Melbourne, Victoria, 3000  
Telephone +61 3 9256 8700  
[www.bellpotter.com.au](http://www.bellpotter.com.au)

**Bell Potter Securities (HK) Limited**  
Room 1701, 17/F  
Prosperity Tower, 39 Queens Road  
Central, Hong Kong, 0000  
Telephone +852 3750 8400

**Bell Potter Securities (US) LLC**  
Floor 39  
444 Madison Avenue, New York  
NY 10022, U.S.A  
Telephone +1 917 819 1410

**Bell Potter Securities (UK) Limited**  
16 Berkeley Street  
London, England  
W1J 8DZ, United Kingdom  
Telephone +44 7734 2929

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