

Nickel Mines (NIC)

Rating: Sell | Risk: High | Price Target: \$1.26

Downgrade to Sell - fully valued and with questions about future achieved nickel prices

Key Information

Current Price (\$ps)	1.49
12m Target Price (\$ps)	1.26
52 Week Range (\$ps)	0.23 - 1.49
Target Price Upside (%)	(15.1%)
TSR (%)	(11.8%)
Reporting Currency	USD
Market Cap (\$m)	3,747
Sector	Materials
Avg Daily Volume (m)	6.6
ASX 200 Weight (%)	0.17%

Fundamentals

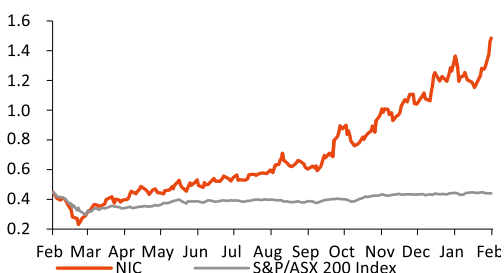
YE 31 Dec (USD)	FY20A	FY21E	FY22E	FY23E
Sales (\$m)	523	692	973	1,233
NPAT (\$m)	111	226	283	355
EPS (cps)	5.3	9.0	11.3	14.1
EPS Growth (%)	49.3%	70.0%	25.2%	25.4%
DPS (cps) (AUD)	4.3	5.2	10.1	15.2
Franking (%)	0%	0%	0%	0%

Ratios

YE 31 Dec	FY20A	FY21E	FY22E	FY23E
P/E (x)	16.1	13.1	10.5	8.4
EV/EBITDA (x)	15.0	8.9	6.5	5.3
Div Yield (%)	3.5%	3.4%	6.8%	10.2%
Payout Ratio (%)	56.7%	44.5%	71.0%	84.9%

Price Performance

YE 31 Dec	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	9.7%	41.0%	45.8%	234.1%
Absolute (%)	9.0%	42.7%	47.2%	232.8%
Benchmark (%)	(0.7%)	1.7%	1.4%	(1.3%)



Price performance indexed to 100

Source:

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%

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Event

Nickel Mines has reported underlying CY20 NPAT of US\$110.6m in-line with our US\$110m forecast. The company changed to a December balance date and so the comparative result of US\$57m in CY19 is for six months only. A final dividend of 2cps has been declared, ahead of our 1c forecast. We downgrade our recommendation to Sell.

Highlights

- Nickel Mines has an 80% economic interest in two Rotary Kiln Electric Furnace (RKEF) projects in the Indonesia Morowali Industrial Park (IMIP). The Chinese steel company Tsingshan holds the other 20%. Each project produces ~21ktpa nickel (100% basis) at a cost of ~US\$7,500/t. Nickel Mines is acquiring an 80% stake in the Angel Nickel Project at Weda Bay, also in Indonesia in partnership with Tsingshan.
- EBITDA of US\$197.1m is 6% ahead of our US\$186m forecast.
- The dividend of 2cps is ahead of our 1cps forecast, bringing the full year dividend to 3cps – we expect this to increase to 4cps in CY21. Nickel Mines is currently in the growth phase of its development. At some stage the company will shift to cash harvesting mode with resultant big increases in dividend payments.
- Nickel Mines finished the year with US\$351m cash, up from US\$93m at September 30th post the company's capital raise. This cash will be used to acquire the Angel Nickel Project interest.
- Nickel Mines recently announced that the pricing of its nickel pig iron will no longer be linked to LME nickel prices, and instead will be linked to Chinese NPI prices. It will be interesting to monitor how this develops. It is possible that a two tiered nickel market evolves, one linked to battery grade nickel sulphate, and the other linked to Nickel Pig Iron (NPI) feedstock for the Chinese stainless steel industry. That is a potential negative for Nickel Mines if strong demand for battery grade nickel results in improving LME nickel prices, but not for NPI.
- We have not made any significant changes to our earnings forecasts and our price target is unchanged at \$1.26, based on our unchanged DCF valuation.

Nickel Mines CY20 result (US\$m)	CY20	CY19	Change	CY20f	diff f'cast
Revenue (100%)	523	236	122%	539	-3%
EBITDA (100%)	194	97	100%	186	5%
Underlying NPAT (NIC share)	111	57	96%	110	0%
Dividend (cps)	3	0	n/a	2	50%

	2020			2021f			2022f			2023f		
	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %
Revenue (US\$m)	523	539	-3%	692	692	0%	973	973	0%	1,233	1,233	0%
EBITDA (US\$m)	194	186	5%	328	328	0%	451	452	0%	551	552	0%
EBIT (US\$m)	158	156	1%	291	298	-2%	414	422	-2%	514	522	-1%
NPAT (US\$m)	111	110	0%	226	228	-1%	284	288	-1%	358	365	-2%

Recommendation

Nickel Mines has a strong growth profile, but after a period of outperformance we think this is now priced. We are concerned that the change in the way NIC's NPI sales are priced will reduce the upside linked to strong EV demand for nickel. We downgrade our Recommendation to Sell.

Nickel Mines

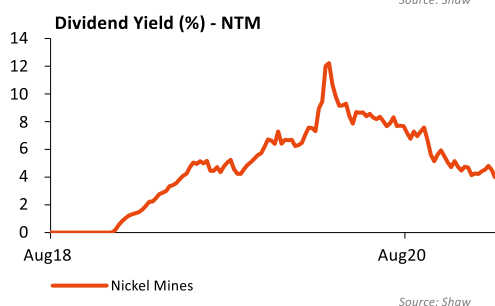
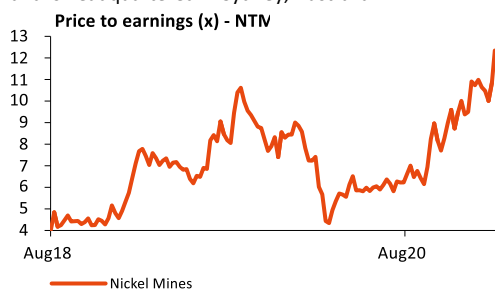
Materials Materials

FactSet: NIC-AU / Bloomberg: NIC AU

Key Items	Data
Recommendation	SELL
Risk	HIGH
Price (\$ps)	1.49
Target Price (\$ps)	1.26
52 Week Range (\$ps)	0.23 - 1.49
Shares on Issue (m)	2,515
Market Cap (\$m)	3,747
Enterprise Value (\$m)	3,689
TSR (%)	(11.8%)

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	9.0	11.3	14.1
EPS (Underlying) (cps)	3.5	5.3	9.0	11.3	14.1
EPS (Underlying) Growth (%)	(42.3%)	49.3%	70.0%	25.2%	25.4%
PE (Underlying) (x)	13.0	16.1	13.1	10.5	8.4
EV / EBIT (x)	36.2	18.5	10.0	7.1	5.7
EV / EBITDA (x)	30.1	15.0	8.9	6.5	5.3
DPS (cps) (AUD)	0.0	4.3	5.2	10.1	15.2
Dividend Yield (%)	0.0%	3.5%	3.4%	6.8%	10.2%
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0.0%	56.7%	44.5%	71.0%	84.9%
Profit and Loss (USD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	236	523	692	973	1,233
Sales Growth (%)	263.5%	121.8%	32.1%	40.6%	26.8%
Other Operating Income	1	0	0	0	0
EBITDA	97	194	328	451	551
EBITDA Margin (%)	41.2%	37.1%	47.4%	46.4%	44.7%
Depreciation & Amortisation	(16)	(37)	(37)	(37)	(37)
EBIT	81	158	291	414	514
EBIT Margin (%)	34.2%	30.1%	42.0%	42.6%	41.7%
Net Interest	11	(3)	(2)	(4)	(3)
Pretax Profit	91	155	289	410	511
Minorities	35	43	63	86	105
NPAT Underlying	57	111	226	283	355
Significant Items	0	0	0	0	0
NPAT Reported	57	111	226	283	355
Cashflow (USD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	81	158	291	414	514
Payments to Suppliers	(170)	(359)	(364)	(521)	(682)
Receipts from Customers	213	518	692	973	1,233
Tax Paid	(5)	(9)	0	0	(41)
Net Interest	0	0	4	1	2
Depreciation & Amortisation	0	0	0	0	0
Other	0	0	(82)	(88)	(80)
Operating Cashflow	38	150	249	365	433
Capex	(30)	(7)	(3)	(3)	(3)
Acquisitions and Investments	(1)	(177)	(460)	0	0
Disposal of Fixed Assets/Investments	7	0	0	0	0
Other	0	0	0	0	0
Investing Cashflow	(24)	(184)	(463)	(3)	(3)
Equity Raised / Bought Back	(0)	418	0	0	0
Dividends Paid	0	(15)	(101)	(126)	(226)
Change in Debt	(30)	(25)	100	(100)	(45)
Other	17	(43)	(68)	(91)	(110)
Financing Cashflow	(13)	334	(68)	(317)	(382)
Exchange Rate Effect	(0)	2	0	0	0
Net Change in Cash	1	302	(282)	44	48
Balance Sheet (USD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	50	351	69	114	162
Accounts Receivable	97	118	133	187	237
Inventory	56	61	133	187	237
Other Current Assets	1	8	8	8	8
PPE	629	601	1,057	1,023	989
Total Assets	897	1,235	1,465	1,583	1,698
Accounts Payable	52	40	45	64	84
Short Term Debt	4	13	13	0	0
Long Term Debt	61	32	132	45	0
Income Taxes Payable	1	4	4	4	4
Other	57	59	60	101	111
Total Liabilities	175	148	253	214	199
Total Shareholder Equity	722	1,086	1,212	1,370	1,498
Ratios	FY19A	FY20A	FY21E	FY22E	FY23E
ROE (%)	15.3%	16.2%	22.6%	24.8%	27.6%
Gearing (%)	3.4%	(48.4%)	6.6%	(6.0%)	(13.6%)
Net Debt / EBITDA (x)	0.2	(1.6)	0.2	(0.2)	(0.3)

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).
- We value each RKEF project at US\$1,050m (100%, NPV @ 11%) and Nickel Mines recently exercised an option to increase its economic interest from 60% to 80% in both projects for US\$120m.

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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