

## Nickel Mines' Bumper Quarter Well Received

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Nickel Mines Ltd posted record earnings in the December quarter and beat all broker forecasts, with coming expansion suggesting further upside.

- Nickel Mines reported record NPI production
- Increased stake in Angel Nickel
- Change to pricing structure

By Greg Peel

Nickel Mines Ltd ((NIC)) has an 80% interest in two rotary kiln electric furnace (RKEF) projects in the Morowali Industrial Park in Indonesia. Chinese steel company Tsingshan holds the other 20%.

The two projects, Hengjaya and Ranger, together produced a record 11.5kt of nickel in the December quarter, up 8% on the September quarter and 5% year on year. Both production, and realised nickel prices, exceeded broker forecasts by varying degrees.

While costs also increased in the quarter, these include seasonal charges that are annual "one-offs", in that they will only occur in the December quarters ahead but not every quarter. Bell Potter notes the 2020 charges represented a downward trend from 2019 charges.

The cost impact becomes rather immaterial nonetheless, when one considers Nickel Mines' margin expanded to 46% in the December quarter from 36% in September thanks to a 22% rise in the period in nickel and nickel pig iron prices. Yet December's was not only a story of prices but of operational outperformance, with the projects running more than 30% above nameplate capacity.

The miner posted another quarterly record in the form of free cash flow, which Credit Suisse suggests represents a 9.3% yield. Some of this has been drawn away for working capital, and some used to pay down debt on the Ranger RKEF, but the company has also raised US\$275m in fresh capital, with a view to production expansion.



### Heavenly

In November last, Nickel Mines acquired 70% of the Angel Nickel project now under development in another Indonesian industrial park, boasting four RKEFs alongside the park's captive power station. Last week the company announced it will lift its Angel stake to 80%, and has since made a down-payment.

Macquarie expects full payment to be made by June this year and with the inclusion of Angel, expects the miner's nickel production to more than double to around 65ktpa within three years. Credit Suisse suggests Angel Nickel should become a structurally low cost, highly cash generative asset.

Moreover, the broker notes the additional 10% equity has been priced based on the same price paid for the original 70%, despite the nickel price rising more than 15% in the interim.

### Some Consternation

Amongst all the good news, one matter has raised broker eyebrows. Nickel Mines has decided to switch its nickel pig iron (NPI) pricing from benchmark London Metals Exchange nickel prices to Chinese NPI prices.

Citi is not surprised by the move given the company's RKEF lines have been outperforming nameplate, but the broker expects longer term shareholders may question the benefit. Out to 2025, Citi's commodity analysts foresee NPI prices falling to a discount to LME nickel prices.

Shaw & Partners is also interested to see how this pricing change develops. It is possible, the broker suggests, that a two-tiered market develops, one linked to battery grade nickel sulphate and the other to NPI feedstock for the Chinese stainless steel industry. There is a potential negative for Nickel Mines if battery demand becomes the dominant driving force behind nickel prices, beyond stainless steel demand, leading to LME prices rising above NPI prices.

This possibility is not, however, the reason why Shaw has downgraded its rating on Nickel Mines to Hold (High Risk) from Buy. That's simply due to the recent strong run in the share price. The broker has increased its earnings forecasts but dropped its target to \$1.26 from \$1.28 on the higher Aussie.

The three FNArena database brokers covering the stock – Macquarie, Citi and Credit Suisse – all retain Buy or equivalent ratings with an average target of \$1.47.

Macquarie, for one, notes that if its own 2023 and 2024 nickel price forecasts are used, the stock is trading on 14% and 15% free cash flow yields. Plug in current spot prices and that would be 19% and 20%.

Bell Potter, too, retains a Buy rating, but with a \$1.67 target, reflecting operational outperformance, increased Angel ownership and an increase to the broker's long term nickel price assumption.

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