

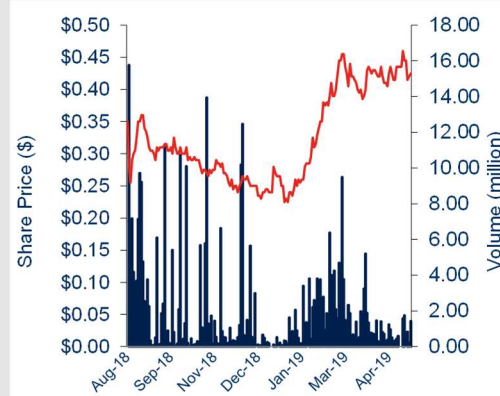
READY FOR LIFT OFF - HENGJAYA RKEF PROJECT ENTERS PRODUCTION PHASE

- Nickel Mines Limited (NIC) releases the first quarterly report since commissioning the 80% owned Hengjaya RKEF project (HNI) and becoming a fully-fledged nickel producer. HNI produced 1,090 tonnes of nickel for the quarter from two RKEF lines.** The first RKEF line to be commissioned is running above 80% of nameplate capacity with an impressive 661.5 tonnes of nickel produced in March (96% of nameplate on an annualised basis). The second line produced 191 tonnes of nickel in the final two weeks of March during commissioning phase. Considering the construction of the project only commenced less than a year ago this is an impressive feat and evidence of the importance of Tsingshan as a strategic partner for NIC. All in cost for production was US\$8,246/t for the quarter, however, this may not be a true representation of operating costs going forward with the transition from construction to production muddying the waters somewhat. Still, it is pleasing that this is inline and slightly below our forecast cost of production of US\$8,409/t. Realised nickel price was US\$12,800/t for the quarter, generating positive operational cash flows for HNI.
- The Ranger project (RNI) will commence commissioning of the first RKEF line early May with the second line to come on line 45 days thereafter.** Pleasingly, RNI is ahead of schedule and we should see a similar production output and cost profile as HNI during the commissioning phase.
- In terms of the Hengjaya laterite mine, ore sales achieved 142,918 tonnes at a nickel grade of 1.92%.** Grades are down from 2.02% as we forecast to better align with the optimal ore feed for the RKEF lines. Cost of production was higher than expected at \$26.02/ore tonne due to higher waste stripping and the establishment of a new mining area. We expect mining costs to be similar next quarter before reducing in the first half of FY20 when the new pit opens closer to port. Price received for the ore were lower than expectations at US\$27.51/t (we forecast US\$28.50/t).
- Increase in Valuation. We assume the increase in ownership of RNI to 60% is completed in the first quarter of FY2020 and allow for the equity placement and debt repayments accordingly. On this basis, we increase our valuation based on a DCF sum of the parts to \$0.92/share (previous \$0.70/share) and reaffirm our Buy recommendation and NIC being our top pick for nickel exposure.**

| Year End June 30 | 2017A | 2018A | 2019F | 2020A | 2021F |
|-------------------------|-----------|---------|---------|---------|-------|
| Reported NPAT (US\$m) | (3.7) | (2.9) | 5.7 | 79.0 | 106.0 |
| Recurrent NPAT (US\$m) | (3.7) | (2.9) | 5.7 | 79.0 | 106.0 |
| Recurrent EPS (UScents) | (1.2) | (0.5) | 0.3 | 4.9 | 6.5 |
| EPS Growth (%) | na | na | na | 1,292.8 | 34.2 |
| PER (x) | (36.0) | (81.7) | 121.9 | 8.8 | 6.5 |
| PEG | na | na | na | 0.0 | 0.2 |
| EBITDA (US\$m) | (3.3) | (1.6) | 9.2 | 98.5 | 127.5 |
| EV/EBITDA (x) | (44.5) | (153.3) | 73.2 | 6.0 | 3.8 |
| Capex (US\$m) | 0.1 | 0.7 | 2.0 | 13.4 | 15.9 |
| Free Cashflow | (0.0) | (58.9) | (115.5) | 81.8 | 100.1 |
| FCFPS (UScents) | (0.0) | (10.5) | (7.1) | 5.0 | 6.2 |
| PFCF (x) | (5,075.7) | (4.1) | (6.0) | 8.5 | 6.9 |
| DPS (cents) | 0 | 0 | 0 | 0.0 | 0.0 |
| Yield (%) | 0 | 0 | 0 | 0.0 | 0.0 |
| Franking (%) | 0 | 0 | 0 | 0 | 0 |

| 30 April 2019 | | |
|--------------------|--------------------|-----------|
| 12mth Rating | BUY | |
| Price | A\$ | 0.43 |
| Target Price | A\$ | 0.92 |
| 12mth Total Return | % | 116.0 |
| RIC: NIC.AX | BBG: NIC AU | |
| Shares o/s | m | 1388.0 |
| Free Float | % | 70.2 |
| Market Cap. | A\$m | 589.9 |
| Net Debt (Cash) | A\$m | (20.3) |
| Net Debt/Equity | % | na |
| 3mth Av. D. T'over | A\$m | 0.664 |
| 52wk High/Low | A\$ | 0.46/0.23 |
| 2yr adj. beta | | 0.68 |
| Valuation: | | |
| Methodology | | DCF |
| Value per share | A\$ | 0.92 |
| Analyst: | Phil Carter | |
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12 Month Share Price Performance



| Performance % | 1mth | 3mth | 12mth |
|------------------|------|------|-------|
| Absolute | 1.2 | 44.1 | 0 |
| Rel. S&P/ASX 300 | 0.1 | 37.3 | 0 |

March Quarter Highlights

Figure 1: Hengjaya Nickel Project Production

| | | January [^] | February | March [*] | Quarter Total |
|-------------------------------------|---------------|----------------------|----------|--------------------|----------------------|
| NPI Production | tonnes | 67.5 | 1,802.6 | 6,502.2 | 8,372.3 |
| NPI Grade | % | 11.6 | 12.7 | 13.1 | 13.0 |
| Nickel Metal Production | tonnes | 7.9 | 229.9 | 852.4 | 1,090.2 |
| IMIP NPI Pricing[#] | US\$/t LME Ni | 12,800 | 12,800 | 12,800 | 12,800 ^{##} |
| All in Cost^{**} | US\$/t | | | | 8,246 |

Source: Nickel Mines Limited

January and February denote the commissioning phase of the first of two RKEF lines with January representing a single day of operation only. The second line operated for the final two weeks of March only. On an annualised basis for the first line, based on the March production, the line is running at 96% of capacity being 7,938t compared to 8,250t nameplate.

Nickel price payable from the IMIP was US\$12,800/t which was a discount of 1.0% on the average LME price for the quarter of US\$12,930/t.

Figure 2: Ranger Nickel Construction Nearing Completion



Source: Nickel Mines Limited

Figure 1: Hengjaya Nickel Laterite Mine Production

| | | January | February | March | Quarter Total | December Qtr |
|----------------------------|------------|---------|----------|--------|---------------|--------------|
| Tonnes mined | wmt | 39,848 | 42,772 | 44,576 | 127,196 | 123,176 |
| Overburden mined | Bcm | 96,133 | 111,444 | 72,204 | 279,781 | 254,604 |
| Strip ratio | Bcm/wmt | 2.4 | 2.6 | 1.6 | 2.2 | 2.1 |
| Tonnes sold | wmt | 41,401 | 35,284 | 66,233 | 142,918 | 139,707 |
| Average grade | % | 1.89 | 1.92 | 1.94 | 1.92 | 2.02 |
| Average price received | US\$/t | 26.07 | 27.54 | 28.38 | 27.51 | 31.78 |
| Average cost of production | CIF US\$/t | 24.20 | 25.32 | 28.33 | 26.02 | 25.55 |

Source: Nickel Mines Limited

A disappointing quarter for the Hengjaya mine with production costs up to \$US26.02/t and a realised price down to US\$27.51/t. Higher costs are attributable to the increased stripping ratio due to the opening up of new mining areas. Grade down as expected and will continue at c.1.9% for the life of mine to suit optimum feed into the RKEF plants.

Higher mining costs are likely to continue into the next quarter but reduce thereafter once mining operations moves down to the central in the first half of FY20. The central pit will allow for significant costs reductions by utilising larger mining fleet along with the benefit from a 7km shorter haul to the jetty for barge loading. Production is expected to increase to 1.5mtpa.

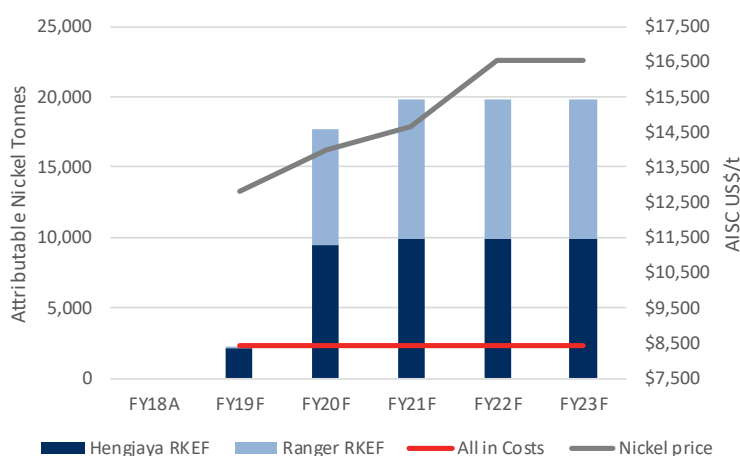
Ranger Nickel Ownership to 60% - Change to Valuation

As per recent announcement (see PSL HOTP dated 17/04/2019) NIC will increase ownership of the Ranger RKEF lines from the current 17% to 60% to align with the Hengjaya Nickel Project. The ownership will cost US\$121.4m to be funded through a US\$160m funding package consisting of US\$100m debt facility from Spratt Private Resource Lending and a US\$60m equity placement.

We make the assumption the debt facility meets the conditions precedent by the end of May and is drawn down in the first quarter of FY2019. We also assume the equity raise is completed by the time the debt facility is drawn down at an issue price of \$0.42/share.

The increase in ownership of RNI will take NIC attributable nickel production up to 19,800 tonnes per year at an all in cost of US\$8,409/t. In light of these assumptions, we increase our valuation to \$0.92/share (previous \$0.70/share) and maintain our buy recommendation.

Figure 4: Forecast RKEF Nickel Production (attributable)



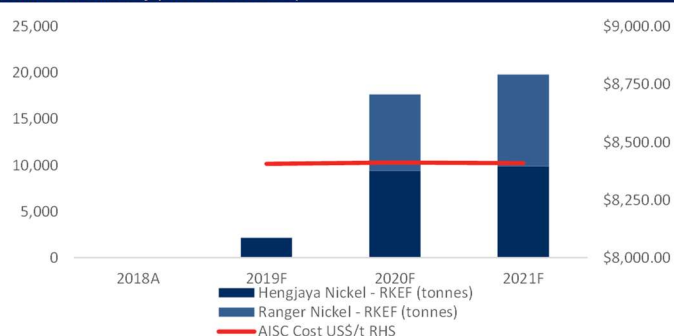
Source: Patersons Securities Limited

| Nickel Mines Limited | Price | \$0.43 |
|----------------------|----------------|-------------|
| Valuation (NPV12%) | \$Am | \$/sh |
| Hengjaya Mine | 69.7 | 0.04 |
| RKEF | 1,412.6 | 0.87 |
| Exploration | 10.0 | 0.01 |
| Corporate | (19.4) | (0.01) |
| Net cash/(debt) | 20.3 | 0.01 |
| Total | 1,493.2 | 0.92 |

Assumptions and Sensativities

| Input | Assumption | Scenario | Impact on Valuation |
|--------------------|---------------|------------------|---------------------|
| Nickel Price USD/t | 12,800-16,500 | +/- 10% Ni Price | -/+ 19.7% |
| AUD/USD | 0.72 | +/- 0.01 in FX | -/+ 1.4% |

Production Summary (attributable tonnes)



Directors & Substantial Shareholders

| Name | Position |
|-------------------|--|
| Robert Neale | Non-Executive Chairman |
| Norman Seckold | Deputy Chairman |
| Justin Werner | Managing Director |
| Peter Nightingale | Executive Director and Chief Financial Officer |
| James Crombie | Non-Executive Director |
| Weifeng Huang | Non-Executive Director |
| Mark Lochtenberg | Non-Executive Director |
| Yuan Yuan Xu | Non-Executive Director |

| Substantial Shareholders | No. Shares (m) | % |
|----------------------------------|----------------|-------|
| Shanghai Decent Investment Group | 161.7 | 11.65 |
| Shanghai Wunlu Investments | 149.3 | 10.75 |
| Blackrock | 137.8 | 9.93 |
| Norman Seckold | 123.7 | 8.91 |

Top 20 Shareholders

| Ratios | 2018A | 2019F | 2020F | 2021F |
|------------------------|---------|---------|---------|---------|
| Valuation | | | | |
| EV/EBITDA (x) | (153.3) | 73.2 | 6.0 | 3.8 |
| PE (x) | (81.7) | 121.9 | 8.8 | 6.5 |
| Price/FCF (x) | (0.01) | (0.00) | 0.01 | 0.00 |
| Profitability | | | | |
| Revenue Growth (%) | 58 | 201.9 | 555.9 | 18.5 |
| EBITDA growth (%) | (64) | (688.6) | 975.8 | 29.5 |
| EBITDA margin (%) | (11.5) | 22.4 | 36.7 | 40.1 |
| NPAT margin (%) | (21.6) | 13.9 | 29.4 | 33.3 |
| ROE (%) | (8.0) | 3.9 | 31.0 | 30.5 |
| ROIC (%) | (2.1) | 3.7 | 23.2 | 24.8 |
| Balance Sheet | | | | |
| Net Debt (Cash) (\$m) | (0.8) | (21.6) | (103.4) | (203.5) |
| Net Debt/Equity (%) | na | na | na | na |
| Interest Cover (x) | (2.5) | 3.5 | 15.8 | 24.8 |
| NTA (\$/sh) | 0.13 | 0.14 | 0.19 | 0.25 |
| Price/NTA (x) | 3.2 | 3.1 | 2.3 | 1.7 |
| Shares outstanding (m) | 563 | 1,582 | 1,582 | 1,582 |

| Resources | Tonnes (m) | Ni % | Ni Metal (t) | Fe % |
|--------------|--------------|------------|--------------|-------------|
| Resource | | | | |
| Measured | 6.9 | 1.2 | 8 | 23.0 |
| Indicated | 50.0 | 1.4 | 70 | 26.0 |
| Inferred | 120.0 | 1.3 | 156 | 29.0 |
| Total | 180.0 | 1.3 | 234 | 28.0 |

| Profit & Loss (US\$m) | 2018A | 2019F | 2020F | 2021F |
|---------------------------------|--------------|------------|-------------|--------------|
| Revenue | 13.6 | 40.9 | 268.3 | 318.0 |
| Joint Venture Gain/(loss) | 0.0 | 0.0 | 0.0 | 0.0 |
| Operating Expenses | (15.1) | (31.8) | (169.8) | (190.5) |
| EBITDA | (1.6) | 9.2 | 98.5 | 127.5 |
| D&A | (0.1) | (1.0) | (6.7) | (8.0) |
| EBIT | (1.6) | 8.1 | 91.8 | 119.6 |
| Net Interest and FX Adjustments | (0.7) | (2.4) | (5.8) | (4.8) |
| Pre-tax Profit | (2.3) | 5.8 | 86.0 | 114.8 |
| Tax Expense | (0.7) | (0.1) | (7.0) | (8.7) |
| Normalised NPAT | (2.9) | 5.7 | 79.0 | 106.0 |
| Significant items net | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported NPAT | (2.9) | 5.7 | 79.0 | 106.0 |
| Earnings Per Share | | | | |
| EPS (Reported) | (0.01) | 0.00 | 0.05 | 0.07 |
| EPS (Adjusted) | (0.01) | 0.00 | 0.05 | 0.07 |
| EPS Growth (%) | -56% | -167% | 1293% | 34% |

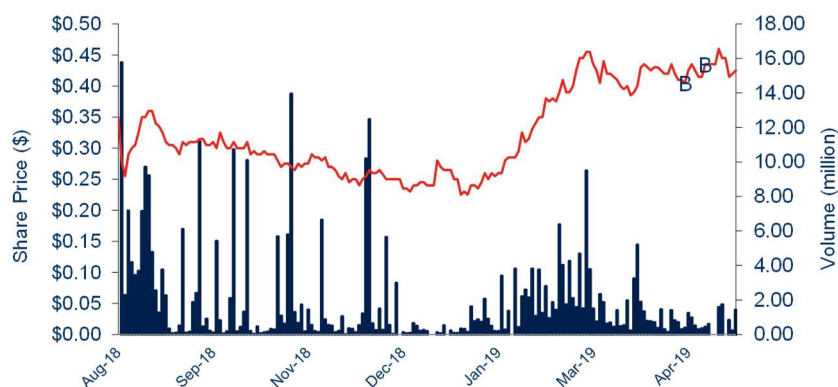
Dividend Per Share

| | | | | |
|--------------------|-----|-----|------|-----|
| DPS | 0.0 | 0.0 | 0.00 | 0.0 |
| DPS Growth (%) | N/A | N/A | N/A | N/A |
| Payout Ratio (%) | 0% | 0% | 0% | 0% |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 |
| Franked (%) | N/A | N/A | N/A | N/A |

| Cash Flow (US\$m) | 2018A | 2019F | 2020F | 2021F |
|-------------------------------------|---------------|----------------|--------------|--------------|
| EBITDA | (1.6) | 9.2 | 98.5 | 127.5 |
| Net interest | 0.1 | (2.4) | (5.8) | (4.8) |
| Income tax paid | 0.0 | (0.1) | (7.0) | (8.7) |
| Working capital | (6.7) | (0.2) | 9.5 | 2.1 |
| Operating Cashflow | (8.2) | 6.5 | 95.2 | 116.0 |
| Capital and Exploration expenditure | (50.7) | (122.0) | (13.4) | (15.9) |
| Free Cashflow | (58.9) | (115.5) | 81.8 | 100.1 |
| Disposals/Other | 0.0 | 0.0 | 0.0 | 0.0 |
| Increase (Repay) Debt | (13.2) | 0.0 | 100.0 | (20.0) |
| Equity Raised | 72.1 | 136.3 | 0.0 | 0.0 |
| Distribution Paid | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Change in Cash | 0.0 | 20.8 | 181.8 | 80.1 |
| Closing Cash Balance | 0.8 | 21.6 | 203.4 | 283.5 |

| Balance Sheet (US\$m) | 2018A | 2019F | 2020F | 2021F |
|---------------------------|-------------|--------------|--------------|--------------|
| Cash | 0.8 | 21.6 | 203.4 | 283.5 |
| Receivables | 0.4 | 4.5 | 29.4 | 34.9 |
| Inventories | 0.6 | 1.9 | 12.4 | 14.6 |
| PP&E | 26.6 | 27.7 | 34.4 | 42.3 |
| Exploration | 0.0 | 0.0 | 0.0 | 0.0 |
| Investments | 50.0 | 169.9 | 169.9 | 169.9 |
| Other Assets | 0.8 | 0.3 | 0.3 | 0.3 |
| Total Assets | 79.2 | 225.9 | 449.8 | 545.6 |
| Creditors | 2.9 | 8.1 | 53.0 | 62.8 |
| Current Borrowings | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-current Borrowings | 0.0 | 0.0 | 100.0 | 80.0 |
| Other Liabilities | 1.4 | 1.3 | 1.3 | 1.3 |
| Total Liabilities | 4.3 | 9.4 | 154.3 | 144.1 |
| Shareholders Funds | 75.1 | 217.4 | 296.4 | 402.4 |

Recommendation History



| Date | Type | Target Price | Share Price | Recommendation | Return |
|-----------|---------------------|--------------|-------------|----------------|--------|
| 09 Apr 19 | Research Note | 0.70 | 0.41 | B | |
| 17 Apr 19 | Hot off the Press | 0.70 | 0.44 | B | 7.3% |
| | Current Share Price | | 0.43 | | -3.4% |

Stock recommendations: Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.



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