BELL POTTER

30 April 2020

Analyst
David Coates 612 8224 2887

Authorisation
Stuart Howe 613 9235 1856

Nickel Mines Ltd (NIC)

Strong start to first full year of production

Recommendation
Buy (unchanged)
Price
$0.53
Target (12 months)
$1.10 (previously $1.14)

GICS Sector

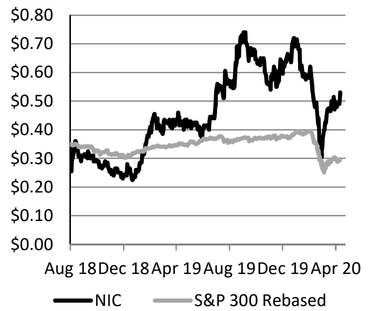
Materials

Expected Return	
Capital growth	**107.5%**
Dividend yield	**0.0%**
Total expected return	**107.5%**
Company Data & Ratios	
Enterprise value	**$870.6m**
Market cap	**$882.7m**
Issued capital	**1,665.5m**
Free float	**58%**
Avg. daily val. (52wk)	**$3.0m**
12 month price range	**$0.295-$0.75**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.42	0.70	0.45
Absolute (%)	26.2	-24.3	19.1
Rel market (%)	20.4	-0.3	34.5

Absolute Price



SOURCE: IRESS

March 2020 quarterly report

NIC has released its March 2020 quarter report, delivering another record production performance from its Rotary Kiln Electric Furnace (RKEF) lines at the Hengjaya and Ranger Nickel Projects at the Indonesia Morowali Industrial Park (IMIP) in Sulawesi. During the March quarter they produced 79,398t of NPI grading 14.2% Ni for 11,291t contained Ni, with 6,775t attributable to NIC (vs BPe 76,154t of NPI grading 13.5% Ni for 10,281t contained Ni, 6,168t attributable). Cash costs were US$7,672/t, down 2% qoq (vs BPe US$7,710/t). While NPI production was lower qoq, higher Ni in NPI grades, lower energy costs and a lower IDR:USD exchange rate contributed to increased Ni in NPI production and lower cash costs. Production and sales from the Hengjaya Mine (NIC 80%) missed our forecasts by some margin, at 156kt (BPe 280kt and down 21% qoq) as operations transitioned to the new Central pit.

Operating track record pushes on

The operating track record at the IMIP has been further strengthened with uninterrupted production achieved through the March 2020 quarter, while complying with COVID-19 movement restrictions and border closures. EBITDA of US$49.8m from NPI production was reported for the March quarter (100%-basis, December quarter US$56.8m) and came in ahead of our internal estimates. We also calculate that Ni in NPI payabilities increased to 90% from 85% qoq. Cash on hand increased from US$49.8m to US$72.9m, in-line with our expectations.

Investment thesis –Buy retained, TP $1.10/sh (from $1.14/sh)

Our lower nickel price forecast offsets the stronger operating performance and assumed higher Ni in NPI grades at the Hengjaya and Ranger RKEF lines, resulting in a 6% cut to our forecast earnings for CY20. The lower AUD:USD exchange rate partially offsets this, for a 2% cut in EPS (reported in Acps). Our NPV-based target price is cut 4%, to $1.10/sh, with the key driver being our lower nickel price forecast. NIC is our top pick in the sector, trading on a relatively low CY20 P/E of 4.5x and offering clear growth catalysts – compared with WSA (Buy, TP$2.54) on 10.0x and IGO (Buy, TP$5.55) on 15.6x. We retain our Buy rating.

Earnings Forecast

Year ending 31 December	2019a*	2020e	2021e	2022e
Sales (US$m)	236	559	694	662
EBITDA (US$m)	97	232	347	344
Attributable NPAT (reported) (US$m)	57	123	196	203
Attributable NPAT (reported) (A$m)	83	189	284	282
EPS (adjusted) (A¢ps)	4.4	11.7	17.1	17.0
EPS growth (%)	46%	70%	45%	-1%
PER (x) [1]	5.2	4.5	3.1	3.1
FCF Yield (%) [1]	5%	52%	55%	54%
EV/EBITDA (x) [1]	5.9	2.5	1.6	1.7
Dividend (A¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%) [1]	49%	48%	50%	39%

SOURCE: BELL POTTER SECURITIES ESTIMATES *Transitional 6 month period to Dec-19. Change of Financial Year end from June to December
1: Metrics annualised for 6 month period to Dec-19

Strong start to first full year of production

March 2020 quarterly report

NIC has released its March 2020 quarter report, delivering another record production performance from its Rotary Kiln Electric Furnace (RKEF) lines at the Hengjaya and Ranger Nickel Projects at the Indonesia Morowali Industrial Park (IMIP) in Sulawesi. During the March quarter they produced 79,398t of NPI grading 14.2% Ni for 11,291t contained Ni, with 6,775t attributable to NIC (vs BPe 76,154t of NPI grading 13.5% Ni for 10,281t contained Ni, 6,168t attributable). Cash costs were US$7,672/t, down 2% qoq (and vs BPe US$7,710/t). While NPI production was lower qoq, higher Ni in NPI grades, lower energy costs and a lower IDR:USD exchange rate contributed to increased Ni in NPI production and lower cash costs.

The operating track record has been further strengthened with uninterrupted production achieved through the March 2020 quarter, while complying with movement restrictions and border closures. NIC's RKEF operations at the IMIP in were one of the first to respond to the COVID-19 pandemic. Strict health monitoring, access restrictions and social distancing measures have been in place since late January 2020.

EBITDA of US$49.8m from NPI production was reported for the March quarter (100%-basis, December quarter US$56.8m) and came in ahead of our internal estimates, starting NIC on track for our CY20e EBITDA of US$232m. For the balance of CY20 we are looking for an improved nickel price, higher payabilities and an increasing contribution from the Hengjaya Mine. Cash on hand increased from US$49.8m to US$72.9m, in-line with our expectations.

Production and sales from the Hengjaya Mine (NIC 80%) missed our forecasts by some margin, at 156kt (BPe 280kt and down 21% qoq). Production was impacted by the transition of mining from the Bete Bete pits to the new Central pit and the changeover of the mining fleet. Shorter haul distances and larger equipment is expected to drive material productivity and cost improvements from the June 2020 quarter onwards.

Key production metrics are summarised below:

Table 1 - NIC quarterly production summary

	Mar-19 Actual	Jun-19 Actual	Sep-19 Actual	Dec-19 Actual	Mar-20 Actual	Mar-20 BP est.	Variance qoq %	Variance vs BPe %
Hengjaya Mine								
Ore sales (t)	142,918	96,023	231,487	196,895	155,599	280,000	-21%	-44%
grade (% Ni)	1.92%	1.84%	1.84%	1.99%	1.83%	1.80%	-8.0%	1.7%
Contained nickel (t Ni)	1,729	1,113	4,259	3,918	2,847	5,040	-27%	-44%
Mine OPEX (US$/t)	$26.02	$44.11	$24.85	$26.27	$29.70	$21.20	13%	40%
Avg price received (US$/t)	$27.51	$23.42	$27.72	$37.59	$24.32	$24.08	-35%	1%
RKEF NPI production								
NPI production (t)	8,372	33,734	72,393	80,015	79,398	76,154	-1%	4%
NPI grade (% Ni)	13.0%	13.9%	13.8%	13.7%	14.2%	13.5%	4%	5%
Contained nickel (t)	1,090	4,698	10,020	10,968	11,291	10,281	3%	10%
Contained nickel (t, attributable)	654	2,684	5,160	6,582	6,775	6,168	3%	10%
Costs								
Cash costs (US$/t Ni)	$7,648	$7,725	$7,536	$7,831	$7,672	$7,710	-2%	0%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Other key takeaways from the result include:

- NIC reported a weighted average contract price for the quarter of US$11,457/t Ni, representing **payability of ~90%** of our calculated average LME price for the March quarter of US$12,742/t, up from our estimate of 85% for the December quarter 2019;

- Operations are now performing at levels we believe are **representative of steady state production**. As such, CY20 will be NIC's first full year as a producer and we expect the reporting of financial results over this period to demonstrate the profitability and cash flow generation capacity of the business to the market;
- In addition to the achievement of continuous production at the IMIP, **the raw material supply chain also remained undisrupted** during the period. Ore export bans implemented in Indonesia have improved laterite nickel ore availability and mining operations have continued. In addition, the IMIP retains ~6 months of ore stockpiles;
- Although markets remain volatile, NIC retains its strategic objective to **lift its ownership in the Hengjaya and Ranger RKEF lines from 60% to 80%** during CY20. A range of financing options are available for the US$120m acquisition cost;
- The **Hengjaya Mine expansion reached key milestones** during the March quarter, with mining operations winding up at the Bete Bete pits and transitioning to the Central pit. A pilot road has being established to enable direct haulage to the IMIP. NIC is targeting a production increase to 150kt per month and operating costs to drop to US$18/t;
- Also at the Hengjaya Mine, **stockpiling of limonite ore continued** for potential sale to High Pressure Acid Leach (HPAL) projects currently under construction in the IMIP (NIC has no economic interest). We currently don't attribute any value to these stockpiles but note the HPAL projects are targeting commissioning in 2022; and
- Post quarter-end NIC **repaid a further US$10m debt**, again retiring debt ahead of schedule and reducing its debt balance from US$65m to $55m. The US$80m facility was initially drawn down in the September quarter 2019.

Changes to our forecasts

Beyond updating our forecasts for the March quarter production report, we have made the following changes to our modelled assumptions:

- Updated our nickel price and foreign exchange assumptions, which incorporate a 5% and 3% lower nickel price in CY20 and CY21 respectively and lower AUD:USD exchange rate across the forecast period. It also includes a reduction in our long-term price, from US$8.20/lb to US$8.00/lb (nominal) in CY23;
- Increased our assumed Ni in NPI grade from 13.5% to 14.0% for the balance of FY20, and increased it from 13.0% to 13.5% for FY21, to reflect actual performance;
- Marginally lowered (~2%) our forecast unit operating costs on lower energy input costs, which we believe will benefit from lower thermal coal prices;
- Increased our CAPEX forecasts for the Hengjaya Mine from US$6m to US$8m for FY20, reflecting higher levels than compared to our prior estimates; and
- Pushed back our statutory divestment schedule for the 80%-owned Hengjaya Mine, which we now assume will not commence until end CY20.

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

Table 2 - Changes to our CY forecasts

Year end 30 December	Previous Dec-20	Dec-21	Dec-22	New Dec-20	Dec-21	Dec-22	Change Dec-20	Dec-21	Dec-22
Prices & currency									
Nickel price (US$/t)	14,550	16,865	17,416	13,878	16,424	17,527	-5%	-3%	1%
US$/A$	0.68	0.71	0.73	0.65	0.69	0.72	-4%	-3%	-1%
Production & costs									
Ore mined (t)	1,380,000	1,560,000	1,560,000	1,235,599	1,560,000	1,560,000	-10%	0%	0%
Nickel in ore (t)	24,840	28,080	28,080	22,287	28,080	28,080	-10%	0%	0%
RKEF NPI production (t)	304,615	304,615	304,615	307,859	304,615	304,615	1%	0%	0%
Contained nickel (t)	40,362	39,600	36,554	42,514	40,362	36,554	5%	2%	0%
Contained nickel (t, attributable)	24,217	23,760	21,932	25,509	24,217	21,932	5%	2%	0%
Cash costs (US$/t Ni)	7,706	7,873	8,066	7,695	7,872	8,066	0%	0%	0%
Earnings & valuation									
Revenue (consolidated, US$m)	585	699	658	559	694	662	-4%	-1%	1%
Revenue (attributable, US$m)	354	419	398	362	417	401	2%	-1%	1%
EBITDA (attributable, US$m)	148	214	205	140	208	207	-5%	-3%	1%
NPAT (reported, attributable, US$m)	131	202	201	123	196	203	-6%	-3%	1%
EPS (reported) (Acps)	12	17	17	12	17	17	-2%	0%	2%
PER (x)	4.4	3.1	3.2	4.5	3.1	3.1	0.1	0.0	(0.1)
EPS growth (%)	74%	42%	-3%	70%	45%	-1%	-4%	3%	3%
DPS (Acps)	-	-	-	-	-	-	na	na	na
Yield	0%	0%	0%	0%	0%	0%	0%	0%	0%
NPV (A$/sh)	1.14	1.29	1.41	1.10	1.25	1.36	-4%	-3%	-3%
Price Target (A$/sh)	1.14			1.10			-4%		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Our lower nickel price forecast offsets the stronger operating performance and assumed higher Ni in NPI grades at the Hengjaya and Ranger RKEF lines, resulting in a 6% cut to our forecast earnings for CY20. The lower AUD:USD exchange rate partially offsets this, for a 2% cut in EPS (reported in Acps). Note, the higher attributable revenues are due to the delayed divestment schedule and higher assumed ownership of the Hengjaya Mine through CY20. NIC continues to trade on a relatively low CY20 P/E of 4.5x – in our view good value for what is in many respects a high growth industrial story.

Our NPV-based target price is lowered 4%, to $1.10/sh, with the key driver being our lower nickel price forecast, which includes a reduction in our long-term price, from US$8.20/lb to US$8.00/lb (nominal) in CY23.

NIC is our top pick in the sector, trading on a relatively low CY20 P/E of 4.5x and offering clear growth catalysts – compared with WSA (Buy, TP$2.54) on 9.9x and IGO (Buy, TP$5.55) on 15.6x.

Table 3 - ASX-listed nickel producer comparison metrics

Company	Ticker	BP rating	BP Target price (A$/sh)	Prev. Close (A$/sh)	Mkt Cap (A$m)	EV (A$m)	EPS FY20e (Acps)	P/E (x)	EBITDA FY20e (A$m)	EV/EBITDA (x)
Nickel Mines Limited	NIC	Buy	$1.10	$0.53	$882.7	$870.6	11.7	4.5	$215.4	4.0
Western Areas Limited	WSA	Buy	$2.54	$2.12	$580.9	$399.5	21.3	10.0	$149.0	2.7
IGO Limited	IGO	Buy	$5.55	$4.68	$2,764.9	$2,357.9	30.0	15.6	$489.0	4.8

SOURCE: IRESS AND BELL POTTER SECURITIES ESTIMATES

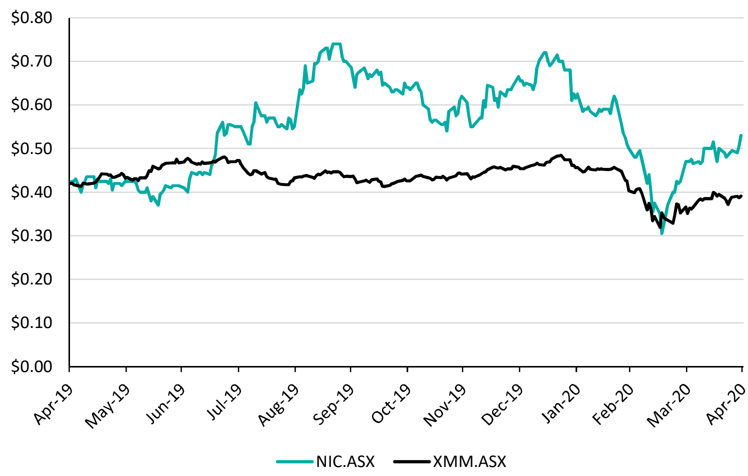
Upcoming catalysts

Upcoming catalysts for NIC include:

- Ongoing production updates from the Hengjaya and Ranger Nickel RKEF lines. Both projects have now achieved steady state production above nameplate. Ongoing updates will reinforce the sustainability of these production levels;
- Updates on Ni in NPI pricing and payabilities, which improved to 90% of the LME price in the March 2020 quarter, and which we forecast to improve to 95%;
- The release of NIC's June 2020 quarterly production and cost report, expected in late July 2020;
- Resource and Reserve updates at the Hengjaya Mine, the progress of its expansion and its delivery of lower operating costs over the course of CY20;
- Indications on the timing of the acquisition of a further 20% interest (to lift ownership to 80%) in the Hengjaya and Ranger projects; and
- Updates on the ownership levels of the 80%-owned Hengjaya Mine, which is subject to Indonesia's compulsory divestment laws.

NIC vs the ASX Metals and Mining Index

Figure 1 - NIC relative share price performance vs ASX Metals and Mining Index (XMM)



SOURCE: IRESS

Nickel Mines Limited (NIC)

Company description: fully integrated NPI 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 four Rotary Kiln Electric Furnace (RKEF) NPI production lines (the two Hengjaya lines and the two Ranger lines) with Shanghai Decent Investments (SDI) a subsidiary of Tsingshan Group, the world's largest stainless steel producer. NIC retains an option to increase its ownership of both Hengjaya and Ranger to 80%, for US$120m in total by November 2020.

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 exceeded their nameplate production run-rate of 16ktpa nickel in NPI (100% basis) during the September quarter 2019. The Ranger Lines commenced production during the September quarter 2019 and exceeded nameplate in the December 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 retained, TP $1.10/sh (from $1.14/sh)

Our lower nickel price forecast offsets the stronger operating performance and assumed higher Ni in NPI grades at the Hengjaya and Ranger RKEF lines, resulting in a 6% cut to our forecast earnings for CY20. The lower AUD:USD exchange rate partially offsets this, for a 2% cut in EPS (reported in Acps). Our NPV-based target price is cut 4%, to $1.10/sh, with the key driver being our lower nickel price forecast. NIC is our top pick in the sector, trading on a relatively low CY20 P/E of 4.5x and offering clear growth catalysts – compared with WSA (Buy, TP$2.54) on 10.0x and IGO (Buy, TP$5.55) on 15.6x. We retain our Buy rating.

Valuation: $1.10/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% by 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 $1.10/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.
- **COVID-19 risks:** Mining companies' rely on freedom of movement of workforces, functioning transport routes, reliable logistics services including road, rail, aviation and ports in order to maintain operations and get their products to market. They also rely on liquid, functioning markets to sell their products. Measures being put in place to combat the COVID-19 pandemic are posing risks to these conditions.
- **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 30 April 2020

Recommendation	Buy
Price	$0.53
Target (12 months)	$1.10

Table 4 - Financial summary

PROFIT AND LOSS

Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e
Revenue	US$m	64.9	236.1	559.4	694.2	661.7
Expense	US$m	(44.5)	(138.9)	(327.8)	(347.4)	(317.9)
EBITDA	**US$m**	**20.4**	**97.2**	**231.6**	**346.8**	**343.8**
Depreciation	US$m	(6.8)	(16.4)	(19.8)	(19.2)	(16.9)
EBIT	US$m	13.6	80.8	211.8	327.6	326.9
Net interest expense	US$m	0.2	(2.1)	(3.9)	2.1	8.6
Unrealised gains (Impairments)	US$m	57.3	7.4	-	-	-
Other	US$m	0.7	5.4	-	-	-
PBT	**US$m**	**71.9**	**91.5**	**207.9**	**329.8**	**335.5**
Tax expense	US$m	(0.1)	(0.2)	(1.4)	(3.5)	(2.7)
Consolidated profit (loss) for the year	US$m	71.8	91.3	206.5	326.3	332.8
Non-Controlling Interest	US$m	6.3	34.8	84.0	130.2	129.5
Attributable NPAT (reported)	**US$m**	**65.5**	**56.5**	**122.5**	**196.0**	**203.3**
NPAT (underlying)	US$m	8.2	49.1	122.5	196.0	203.3

CASH FLOW

Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e
OPERATING CASHFLOW						
Receipts	US$m	33.4	212.7	600.7	680.8	665.0
Payments	US$m	(28.4)	(169.9)	(298.3)	(342.5)	(325.3)
Tax	US$m	(1.2)	(4.7)	0.1	(1.4)	(3.5)
Net interest	US$m	0.2	0.1	(3.9)	2.1	8.6
Other	US$m	-	-	-	-	-
Operating cash flow	**US$m**	**4.1**	**38.2**	**298.6**	**339.0**	**344.8**
INVESTING CASHFLOW						
Property, plant and equipment	US$m	(19.5)	(29.6)	(10.3)	(2.9)	(2.9)
Mine development	US$m	-	-	-	-	-
Exploration & evaluation	US$m	-	-	(0.4)	(0.4)	(0.4)
Other	US$m	(121.1)	5.8	-	-	-
Investing cash flow	**US$m**	**(140.6)**	**(23.8)**	**(10.7)**	**(3.3)**	**(3.3)**
Free Cash Flow	*US$m*	*(136.5)*	*14.4*	*287.8*	*335.7*	*341.5*
FINANCING CASHFLOW						
Share issues/(buy-backs)	US$m	183.6	-	-	-	-
Debt proceeds	US$m	-	-	-	-	-
Debt repayments	US$m	(2.0)	(29.9)	(10.0)	(21.3)	(21.3)
Distributions to non-controlling interests	US$m	15.0	17.0	(83.2)	(126.2)	(127.2)
Dividends	US$m	-	-	-	-	-
Other	US$m	(10.8)	(0.4)	-	-	-
Financing cash flow	**US$m**	**185.8**	**(13.3)**	**(93.2)**	**(147.5)**	**(148.5)**
Change in cash	*US$m*	*49.3*	*1.1*	*194.6*	*188.1*	*193.0*

BALANCE SHEET

Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e
ASSETS						
Cash & short term investments	US$m	49.0	49.8	244.5	432.6	625.6
Accounts receivable	US$m	43.7	97.2	55.9	69.4	66.2
Property, plant & equipment	US$m	340.1	628.5	619.4	603.5	589.8
Mine development expenditure	US$m	-	-	-	-	-
Exploration & evaluation	US$m	-	-	0.0	0.1	0.1
Other	US$m	99.2	122.0	122.0	122.0	122.0
Total assets	**US$m**	**531.9**	**897.5**	**1,041.8**	**1,227.5**	**1,403.7**
LIABILITIES						
Accounts payable	US$m	42.2	52.5	81.9	86.9	79.5
Income tax payable	US$m	0.3	0.7	1.4	3.5	2.7
Borrowings	US$m	4.2	65.0	59.3	38.0	16.7
Other	US$m	30.4	57.2	53.6	53.6	53.6
Total liabilities	US$m	**77.2**	**175.4**	**196.3**	**182.0**	**152.5**
SHAREHOLDER'S EQUITY						
Share capital	US$m	275.9	315.5	315.5	315.5	315.5
Reserves	US$m	(0.6)	19.2	19.2	19.2	19.2
Retained earnings	US$m	36.3	92.8	215.3	411.3	614.6
Total equity to NIC holders	**US$m**	**311.6**	**427.5**	**550.0**	**746.0**	**949.3**
Non-controlling interest	US$m	143.2	294.7	295.5	299.5	301.9
Total equity	**US$m**	**454.8**	**722.1**	**845.5**	**1,045.6**	**1,251.2**
Weighted average shares	m	1,324.4	1,631.2	1,607.4	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$/sh**		**0.530**
Market capitalisation	A$m		882.7
Net cash	A$m		12.1
Enterprise value (undiluted)	**A$m**		**870.6**
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$m		882.7
Net cash + options	A$m		12.1
Enterprise value (diluted)	**A$m**		**870.6**

MAJOR SHAREHOLDERS

Shareholder	%	m
Shanghai Decent (SDI)	18.1%	301.7
BlackRock Investment Management	8.3%	138.6
Directors and Management	8.3%	137.9
Tanito Group (PT Karunia)	6.2%	104.0
Regal FM	5.8%	96.5

FINANCIAL RATIOS

Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e
VALUATION						
Attributable NPAT	US$m	65.5	56.5	122.5	196.0	203.3
Attributable NPAT	A$m	91.6	82.5	188.6	284.1	282.3
Reported EPS	Ac/sh	6.9	5.1	11.7	17.1	17.0
Adjusted EPS	Ac/sh	0.9	4.4	11.7	17.1	17.0
EPS growth	%	nm	46%	70%	45%	-1%
PER [1]	x	7.7x	5.2x	4.5x	3.1x	3.1x
DPS	Ac/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share [1]	Ac/sh	(14.4)	2.6	27.6	29.2	28.5
FCF yield [1]	%	-27%	5%	52%	55%	54%
P/FCFPS [1]	x	-3.7x	20.5x	1.9x	1.8x	1.9x
EV/EBITDA [1]	x	27.8x	5.9x	2.5x	1.6x	1.7x
EBITDA margin	%	31%	41%	41%	50%	52%
EBIT margin	%	21%	34%	38%	47%	49%
Return on assets [1]	%	23%	26%	25%	29%	25%
Return on equity [1]	%	37%	49%	48%	50%	39%
LIQUIDITY & LEVERAGE						
Net debt (cash)	$m	(45)	15	(185)	(395)	(609)
ND / E	%	-14%	4%	-34%	-53%	-64%
ND / (ND + E)	%	-17%	3%	-51%	-112%	-179%
EBITDA / Interest	x	nm	46.1x	59.8x	nm	nm

ATTRIBUTABLE DATA - NICKEL MINES LTD

Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e
Revenues	US$m	52.0	156.1	362.2	417.1	400.7
EBITDA	US$m	13.5	57.1	139.9	207.6	207.0
NPAT	US$m	65.5	56.5	122.5	196.0	203.3
Net distributable cash flow	US$m	44.4	1.0	175.2	169.3	173.7
EV/EBITDA	x	46.1	10.4	4.0	2.9	3.0
PER	x	7.7	10.5	4.5	3.1	3.1
P/FCF	x	nm	nm	nm	3.6	3.7

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 31 Dec. (from 2020) avg	Unit	2019a	2019a*	2020e	2021e	2022e
Nickel	US$/lb	$5.60	$7.02	$6.29	$7.45	$7.95
Nickel	US$/t	$12,343	$15,483	$13,878	$16,424	$17,527
Currency						
AUD:USD		0.72	0.68	0.65	0.69	0.72

ASSUMPTIONS - Production & costs

Year ending 31 Dec. (from 2020)	Unit	2019a	2019a*	2020e	2021e	2022e
Hengjaya Mine						
Ore mined	wmt	484,268	428,382	1,235,599	1,560,000	1,560,000
Ore grade	% Ni	2.0%	1.9%	1.8%	1.8%	1.8%
Nickel in ore	t Ni	5,977	8,178	22,287	28,080	28,080
Nickel in ore (attributable)	t Ni	4,782	6,542	17,830	17,199	14,742
RKEF (IMIP)						
NPI production	t	42,106	152,408	307,859	304,615	304,615
Contained nickel	t Ni	5,788	20,988	42,514	40,362	36,554
Contained nickel (attributable)	t Ni	3,339	11,742	25,509	24,217	21,932
Costs						
Cash costs	US$/t Ni	$7,710	$7,689	$7,695	$7,872	$8,066
All-in-Costs (AIC)	US$/t Ni	$8,125	$7,804	$7,807	$7,995	$8,205

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)	1,366.7	0.82	1,583.8	0.95	1,620.1	0.97
Hengjaya Mine (NPV12)	45.2	0.03	52.1	0.03	62.4	0.04
Other exploration	25.0	0.02	25.0	0.02	25.0	0.02
Corporate overheads	(17.6)	(0.01)	(18.6)	(0.01)	(18.8)	(0.01)
Subtotal (EV)	1,419.3	0.85	1,642.3	0.99	1,688.8	1.01
Net cash (debt)	12.1	0.01	185.1	0.11	394.6	0.24
Total (undiluted)	**1,431.4**	**0.86**	**1,827.4**	**1.10**	**2,083.4**	**1.25**
Dilutive effect of options		-		-		-
Add cash from options	-	-	-	-	-	-
Total (diluted)	**1,431.4**	**0.86**	**1,827.4**	**1.10**	**2,083.4**	**1.25**

**Transitional 6 month period to Dec-19. Change of Financial Year end from June to December*

[1] *Metrics annualised for 6 month period to Dec-19*

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
Industrials			
Steven Anastasiou	Industrials	613 9235 1952	sanastasiou
James Filius	Industrials	613 9235 1612	jfilius
Sam Haddad	Industrials	612 8224 2819	shaddad
Alex McLean	Industrials	612 8224 2886	amclean
Hamish Murray	Industrials	613 9235 1813	hmurray
Chris Savage	Industrials	612 8224 2835	csavage
Jonathan Snape	Industrials	613 9235 1601	jsnape
Damien Williamson	Industrials	613 9235 1958	dwilliamson
Healthcare/Biotech			
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare/Biotech	612 8224 2849	tnjain
Financials			
TS Lim	Banks/Regionals	612 8224 2810	tslim
Lafitani Sotiriou	Diversified Financials/Fintech	613 9235 1668	lsotiriou
Resources			
Peter Arden	Resources	613 9235 1833	parden
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
Associates			
Joseph House	Associate Analyst	+61 3 9235 1624	jhouse

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

Bell Potter Securities (HK) Limited
Room 1701, 17/F
Posperity 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

Research Policies:

For Bell Potter's Research Coverage Decision Making Process and Research Independence Policy, please refer to our company website:

https://www.bellpotter.com.au/topnavigation/private-clients/stockbroking/research

Disclosure of interest:

Bell Potter Securities Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document (which its representatives may directly share) and may from time to time hold interests in the securities referred to in this document.

Disclosure: Bell Potter Securities acted as Lead Manager to the $55M Placement of June 2019 and received fees for that service.

ANALYST CERTIFICATION

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.