

Nickel Mines

NIC-ASX

Rating
Market PerformPrice: Oct-31
A\$0.64Target ↑
A\$1.40Total Rtn
119%

No Tricks; Rapid Ramp-Up Is a Treat

Bottom Line: Nickel Mines' quarterly production update showed an impressive ramp-up of the Ranger RKEF lines, which averaged near nameplate capacity in only the first couple quarters of production. The more mature Hengjaya RKEF also continue to be strong and have exceeded our previously forecasted long-term run rate. With strong production, Nickel Mines's balance sheet appears to be in good shape. We maintain our Market Perform rating but we are raising our one-year target to A\$1.40/share from A \$1.20/share previously due to the better-than-expected ramp-up of RKEF lines.

Key Points

A rapid ramp-up. A production update released today shows that Nickel Mines' Ranger Nickel and Hengjaya Nickel RKEF lines (NIC 60%) produced significantly more nickel pig iron (NPI) than expected due to a fast ramp-up of Ranger, which started production in late May. NPI production at Ranger was 32.8kt or 180tpd, well above our ramp-up forecast 15.9kt or 75-100tpd.

Hengjaya exceeds our run-rate expectations. Hengjaya, which started production in late January, is a more mature and predictable operation. Hengjaya produced 39.6kt NPI or 217tpd, ahead of our 34.6kt or 190tpd forecast. We note that we had previously expected both Hengjaya and Ranger RKEF operations would run at a sustainable 190tpd rate, but given the strong result at Hengjaya, we have increased our expectation to a sustainable 215tpd, which is still below the July-September 2019 average to account for maintenance and other slowdowns which may occur through the year.

Balance sheet strengthens. Nickel Mines also reported cash, receivables, and inventory assets rose to US\$154.7M at September 30, from US\$103.1M at June 30. Further, Nickel Mines repaid US\$15M of the US\$80M that was drawn down to fund Nickel Mines' increased ownership of Hengjaya and Ranger RKEF lines. Nickel Mines will report its financials as at December 31.

We maintain our Market Perform rating. The outlook on nickel at LME Week this year is mixed. Commodities analysts and traders attribute the Indonesian government export ban for the recent nickel commodity price outperformance; however, we have observed a difference of opinion on the outlook for consistent application of this restriction going forward ([BMO's base case view](#) is stronger nickel prices for the next four quarters, falling below US\$8.00/lb thereafter). We're maintaining our Market Perform rating until we see a stronger conviction from investors to buy nickel.

Key Changes

Target	Estimates	1H / 20E	2020E	2021E
A\$1.40↑	Revenue (mm)	203	518	576
A\$1.20	Previous	170	452	517
	EPS	0.03	0.11	0.18
	Previous	0.01	0.08	0.16
	CFPS	0.07	0.18	0.20
	Previous	0.05	0.15	0.17

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IN Fact

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Company Data		in AUD	
Dividend	AUD0.00	Shares O/S (mm)	1,665.5
Yield	0.0%	Market Cap (mm)	A\$1,066
NAV	\$2.13	P/NAV	0.3x

BMO Estimates		in AUD		
(FY- Jun .)	2019A	2020E	2021E	
Revenue (mm)	65	518↑	576↑	
EPS	0.05	0.11↑	0.18↑	
CFPS	0.05	0.18↑	0.20↑	
EBITDA (mm)	14	306↑	324↑	
NPI Prod (Kt)	42	303↑	313↑	

Consensus Estimates		2019A	2020E	2021E
EPS			0.10	0.17

Valuation		2019A	2020E	2021E
P/E		12.6x	5.8x	3.5x
P/CFPS		13.5x	3.5x	3.3x
EV/EBITDA		29.7x	2.1x	1.0x

Semi-Annual EPS		H1	H2
2019A		(0.00)	0.05
2020E		0.03	0.08
2021E		0.10	0.09

Our Thesis

Nickel Mines provides exposure to nickel commodity prices but at a lower operating risk as compared with conventional nickel mining companies through its equity investments in rotary kiln electric furnace (RKEF) lines to produce nickel pig iron in Indonesia.

Nickel Mines - Block Summary Model

Income Statement	2019A	2020E	2021E
Total Revenues	65	518	576
Cost of Sales	43	213	254
DD&A	7	6	3
SG&A	3	3	3
Interest Expense	58	1	3
Adjusted Net Income	66	146	245
Adjusted EPS	0.05	0.11	0.18
EBITDA	14	306	324
Cash Flow Statement	2019A	2020E	2021E
Operating Cash Flow	4	308	326
Investing Cash Flow	(141)	(196)	0
Financing Cash Flow	186	80	0
Change in Cash	48	191	327
Beg Cash Balance	1	49	240
Ending Cash Balance	49	240	567
Free Cash Flow	(135)	111	327
Balance Sheet	2019A	2020E	2021E
Cash & Equivalents	49	240	567
Long-Term Debt	0	80	0
ND/EBITDA	(3.3)x	(0.5)x	(1.5)x
Total Liabilities	77	157	157
Total Shareholders' Equity	455	756	1,080
Net Debt	(45)	(156)	(483)
Production	2019A	2020E	2021E
NPI Production (Kt)	42	303	313
Nickel Price (US\$/lb)	5.60	8.85	7.54

Source: BMO Capital Markets, Company Reports

Scenarios

Valuation

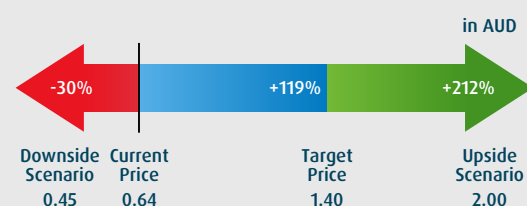
We value Nickel Mines shares using a 75% weighting of a 0.7x multiple to our NAV and a 25% weighting of a 4.0x EV/EBITDA multiple to our NTM EBITDA.

Upside Scenario AUD2.00

Our upside scenario share price is based on a US\$10.00/lb long-term nickel price and growth to the RKEF business.

Downside Scenario AUD0.45

Our downside scenario share price is based on a US\$5.00/lb long-term nickel price.



Key Catalysts

Ramp-up of the RKEF lines to full production run rate, cost savings through road haulage, selling limonite ore to nearby HPAL, higher equity participation in existing RKEF, equity participation in new RKEF lines.

Company Description

Nickel Mines mines nickel laterite ore and produces nickel pig iron through RKEF lines in Indonesia.



NIC-ASX Research



Glossary



Company Models

Exhibit 1: Nickel Mines Block Model

Nickel Mines		NIC	
Recommendation	Mkt	Analyst	Jackie Przybylowski
As at	31-Oct-19	BMO Capital Markets	
Year End	June		
Share Price	A\$/share \$0.57	US\$/share \$0.48	Market Cap (A\$) A\$941.0M
Target Price	\$1.40	\$0.94	Ordinary Shares 1,665M
			Options & Warrants 0M

PRICE ASSUMPTIONS						
(June Year End)						
	FISCAL	2018A	2019A	2020E	2021E	2022E
Nickel	US\$/lb	\$5.66	\$5.60	\$8.85	\$7.54	\$7.20
Exchange Rate	USD/AUD	0.78	0.72	0.67	0.68	0.70
Exchange Rate	USD/IDR	13,599	14,445	14,758	14,911	14,393

FINANCIAL SUMMARY						
(June Year End)						
	FISCAL	2018A	2019A	2020E	2021E	2022E
Earnings (Adj.)	(US\$M)	-\$3.3	\$65.5	\$145.8	\$244.8	\$234.4
EPS	(US\$/share)	-\$0.01	\$0.05	\$0.11	\$0.18	\$0.18
P/E	(x)	0.0x	2.5x	2.6x	3.3x	2.7x
EBITDA	(US\$M)	-\$1.6	\$13.6	\$306.4	\$323.8	\$305.0
EBITDA/share	(US\$/share)	\$0.00	\$0.01	\$0.23	\$0.24	\$0.23
EV/EBITDA	(x)	0.5x	29.7x	2.1x	1.0x	0.0x
Cash Flow	(US\$M)	-\$1.5	\$78.7	\$307.5	\$326.5	\$310.2
CFPS	(US\$/share)	\$0.00	\$0.05	\$0.18	\$0.20	\$0.19
P/CF	(x)	na	10.2x	2.6x	2.5x	2.6x
Free Cash Flow	(US\$M)	-\$21.3	-\$135.4	\$111.4	\$326.7	\$309.7
FCFPS	(US\$/share)	-\$0.05	-\$0.08	\$0.07	\$0.20	\$0.19
FCF Yield	(%)	-9.6%	-16.9%	13.9%	40.8%	38.6%
Dividend	(US\$/share)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Ordinary Shares	(M)	392.0	1,286.5	1,324.4	1,324.4	1,324.4

PROFIT AND LOSS STATEMENT - US\$M						
(June Year End)						
	FISCAL	2018A	2019A	2020E	2021E	2022E
Revenue		\$13.6	\$64.9	\$518.2	\$575.9	\$552.5
Operating costs		\$10.7	\$43.3	\$213.3	\$253.5	\$248.9
Gross profit		\$2.9	\$21.6	\$304.9	\$322.3	\$303.5
Depreciation		\$0.1	\$6.8	\$6.0	\$3.1	\$1.0
Exploration		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
G&A		\$2.0	\$2.6	\$2.6	\$2.6	\$2.6
Earnings from operations		-\$1.6	\$13.6	\$300.4	\$320.7	\$304.0
Net finance costs		\$0.7	-\$58.3	-\$1.1	-\$3.3	-\$6.0
Earnings before taxes, other		-\$2.3	\$71.9	\$301.4	\$324.0	\$310.1
Tax expense		-\$0.7	-\$0.1	\$0.0	-\$0.6	-\$0.8
Earnings from continuing ops		-\$2.9	\$71.8	\$301.5	\$323.3	\$309.2
Non-controlling interest		\$0.4	\$6.3	\$155.7	\$78.6	\$74.8
Attributable net earnings (loss)		-\$3.3	\$65.5	\$145.8	\$244.8	\$234.4
Adjustments		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Adjusted net earnings (loss)		-\$3.3	\$65.5	\$145.8	\$244.8	\$234.4

FINANCIAL METRICS						
	FISCAL	2018A	2019A	2020E	2021E	2022E
ROE	(%)	-8.7%	14.4%	19.3%	22.7%	19.0%
ROIC	(%)	11.3%	-11.7%	39.3%	60.4%	19.6%
Net Debt to Equity	(%)	-1.1%	-9.9%	-20.7%	-44.7%	-57.1%
Net Debt/ EBITDA	(x)	0.5x	-3.3x	-0.5x	-1.5x	-2.6x
Coverage Ratio	(x)	-1.2x	378.9x	0.0x	0.0x	0.0x

CASH FLOW ANALYSIS - US\$M						
(June Year End)						
	FISCAL	2018A	2019A	2020E	2021E	2022E
Net income		-\$2.9	\$71.8	\$301.5	\$323.3	\$309.2
Other items		-\$6.2	-\$40.0	\$6.0	\$3.1	\$1.0
Changes in NC working capital		\$0.8	-\$27.7	\$0.0	\$0.0	\$0.0
Operating cash flow		-\$8.2	\$4.1	\$307.5	\$326.5	\$310.2
Property, plant & equipment		-\$13.1	-\$139.5	-\$196.1	\$0.2	-\$0.6
Other		-\$37.6	-\$1.1	\$0.0	\$0.0	\$0.0
Investing cash flow		-\$50.7	-\$140.6	-\$196.1	\$0.2	-\$0.6
Net borrowings		-\$13.2	\$2.0	\$80.0	\$0.0	-\$80.0
Common shares issued		\$72.1	\$172.8	\$0.0	\$0.0	\$0.0
Other		\$0.0	\$11.0	\$0.0	\$0.0	\$0.0
Financing cash flow		\$59.0	\$185.8	\$80.0	\$0.0	-\$80.0
Net free cash flow		-\$21.3	-\$135.4	\$111.4	\$326.7	\$309.7
Net increase in cash		\$17.7	\$48.2	\$191.4	\$326.7	\$229.7

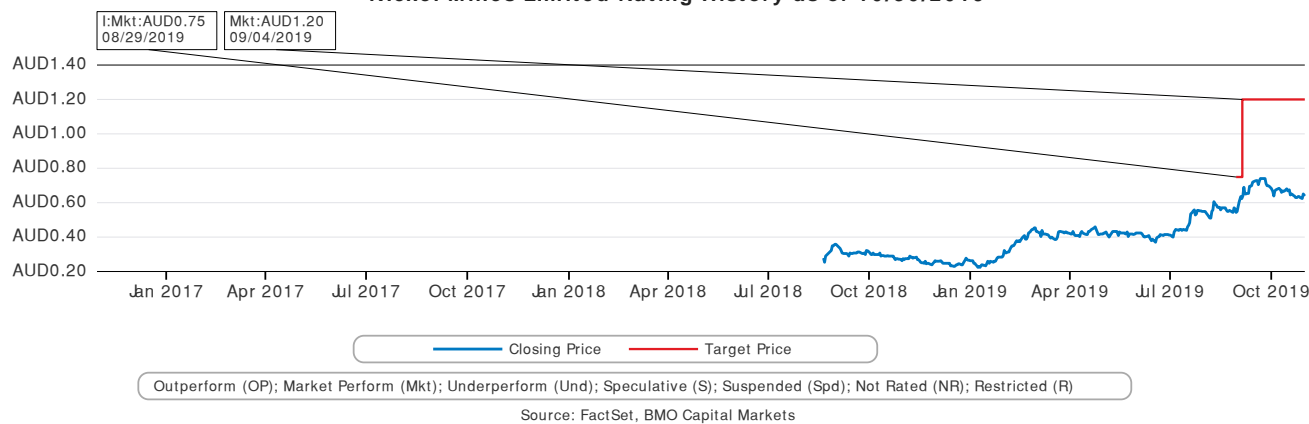
BALANCE SHEET ANALYSIS - US\$M						
(June Year End)						
	FISCAL	2018A	2019A	2020E	2021E	2022E
Assets						
Cash and equivalents		\$0.8	\$49.0	\$240.4	\$567.1	\$796.8
Other current assets		\$1.7	\$59.2	\$59.2	\$59.2	\$59.2
Total long-term assets		\$76.9	\$423.7	\$613.8	\$610.4	\$610.0
Total assets		\$79.4	\$531.9	\$913.4	\$1,236.8	\$1,466
Liabilities						
Current liabilities		\$4.0	\$47.2	\$47.2	\$127.2	\$47.2
Long term liabilities		\$0.3	\$29.9	\$109.9	\$29.9	\$29.9
Total liabilities		\$4.3	\$77.2	\$157.2	\$157.2	\$77.2
Shareholders' Equity						
Non controlling interest		\$1.9	\$143.2	\$298.9	\$377.5	\$452.3
Total shareholders' equity		\$75.1	\$454.8	\$756.2	\$1,079.6	\$1,389
Debt						
Net debt		-\$0.8	-\$44.8	-\$156.3	-\$482.9	-\$792.6
Total debt		\$0.0	\$4.2	\$84.2	\$84.2	\$4.2

NPV ANALYSIS			PRODUCTION				
	8% NPV	10% NPV	FISCAL	2018A	2019E	2020E	20201E
Assets			NPI (kt)				
Hengjaya Mine	\$15	\$13	Hengjaya RKEF	0.0	39.6	157.0	156.5
Hengjaya RKEF	\$1,462	\$1,232	Ranger RKEF	0.0	2.5	146.1	156.5
Ranger RKEF	\$1,443	\$1,204	Total contained nickel (kt)				
Primary asset NAV	\$2,920	\$2,449	Hengjaya RKEF	0.0	5.5	19.3	21.3
Adjustments			Ranger RKEF	0.0	0.3	20.5	21.9
Cash	\$49	\$49	MINERAL RESOURCES as at April 2018				
Corporate G&A	-\$15	-\$12		Mt	Ni (%)	Co (%)	Fe (%)
Other	\$77	\$77	Measured	6.9	1.2%	0.07%	23%
Total NPV				50	1.4%	0.07%	26%
Per Share	\$1.82	\$1.54	Inferred	120	1.3%	0.08%	29%
			Total	180	1.3%	0.08%	28%

OPERATING COSTS						
	FISCAL	2018A	2019A	2020E	2021E	2022E
Mine unit costs (US\$/t ore mined)		\$6.71	\$18.01	\$22.92	\$21.90	\$22.69
Hengjaya RKEF unit cost (US\$/lb Ni produced)		\$0.83	\$2.15	\$3.42	\$3.26	\$3.21
Ranger RKEF unit cost (US\$/lb Ni produced)		\$0.83	\$0.82	\$3.43	\$3.26	\$3.21

Source: Company reports, FactSet, BMO Capital Markets

Nickel Mines Limited Rating History as of 10/30/2019



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Disclosure 16: A research analyst has extensively viewed the material operations of Nickel Mines Limited.

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Methodology: The target price is derived using a blend of NAV and EV/EBITDA multiples.

Risks: Risks to our target price include a material difference of actual commodity prices or FX compared with our price assumptions, future revisions to tax, mining codes, export policy, or further mandated divestment of ownership from foreign owners in Indonesia.

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Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	46.5 %	21.7 %	55.7 %	48.1 %	57.3 %	57.7%
Hold	Market Perform	49.4 %	15.5 %	42.3 %	48.4 %	41.5 %	37.5%
Sell	Underperform	4.1 %	9.1 %	2.1 %	3.4 %	1.2 %	4.8%

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(S) = Speculative investment;

Spd = Suspended - Coverage and rating suspended until coverage is reinstated;

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(April 2013 - October 2016)

http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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