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Nickel Mines Ltd (NIC)

Compelling value for growth

Recommendation
Buy (unchanged)
Price
$1.045
Target (12 months)
$1.52 (previously $1.56)

GICS Sector

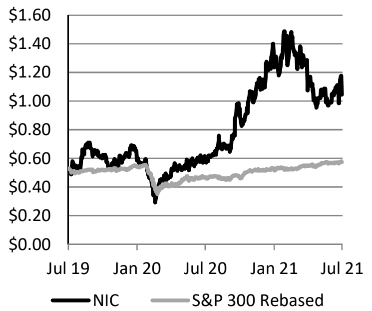
Materials

Expected Return	
Capital growth	**45.5%**
Dividend yield	**2.9%**
Total expected return	**48.4%**
Company Data & Ratios	
Enterprise value	**$2,608m**
Market cap	**$2,628m**
Issued capital	**2,515m**
Free float	**79%**
Avg. daily val. (52wk)	**$11.3m**
12 month price range	**$0.54-$1.54**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.99	1.26	0.58
Absolute (%)	6.1	-16.7	79.9
Rel market (%)	4.7	-21.3	58.3

Absolute Price



SOURCE: IRESS

June 2021 quarterly report

NIC has released its June 2021 quarter report, announcing production and costs from its Rotary Kiln Electric Furnace (RKEF) lines at the Hengjaya and Ranger Nickel Projects at the IMIP in Indonesia. Production was in-line with our forecasts but costs rose again, driven primarily by higher thermal and metallurgical coal prices. During the June quarter, NIC produced 74,487t of NPI grading 13.6% Ni for 10,143t contained Ni, with 8,114t attributable to NIC (vs BPe 75,500t of NPI grading 13.5% Ni for 10,193t contained Ni, 8,154t attributable). Cash costs were US$9,107/t (vs BPe US$8,310/t). Cash on hand increased from US$129.3m to US$189.9m. During the quarter NIC paid US$138m in staged consideration to lift its interest in Angel Nickel from 30% to 50% and received US$171m from the issuance of it 6.5% Senior Unsecured Notes.

Stronger 2HCY22 flagged

Rising NPI prices and steady costs should result in a strong 2HCY21 financial performance. Since the end of the June quarter, NPI pricing has risen ~15% due to supply tightness and strong stainless steel demand. Based on prices of ~US$210/Ni unit we calculate an approximate contract price for NIC's NPI that implies a realised Ni in NPI price of ~US$18,000/t, or ~25% higher than the June quarter average. Should cash costs remain stable this equates to a cash EBITDA margin of +US$8,000/t. NIC is well placed to meet our CY21 EBITDA forecast of US$254m (100%-basis).

Investment thesis – Buy, TP$1.52/sh (from $1.56/sh)

Our updated assumptions result in a 7% cut to our forecast CY21 earnings, driven primarily by our 2% lower production and 8% higher cost forecast. Earnings for CY22 are up 6% on 10% higher NPI production as Angel Nickel commences early. NIC offers excellent value at these levels. Upside to our updated price target is 45.5% and valuation multiples are low. NIC is trading on a CY21 P/E of 12.0x, in our view compelling value for an industrial style stock set to nearly double production from CY23. Forward P/E's are lower, at 7.1x and 4.5x for CY22 and CY23 respectively.

Earnings Forecast

Year ending 31 December	2020a	2021e	2022e	2023e
Sales (US$m)	523	611	798	1,269
EBITDA (US$m)	194	254	421	666
Attributable NPAT (reported) (US$m)	111	166	271	426
Attributable NPAT (reported) (A$m)	160	219	371	583
EPS (adjusted) (A¢ps)	8.2	8.7	14.8	23.2
EPS growth (%)	62%	6%	69%	57%
PER (x) 1	12.7	12.0	7.1	4.5
FCF Yield (%) 1	-2%	-10%	20%	34%
EV/EBITDA (x) 1	9.9	7.6	4.6	2.9
Dividend (A¢ps)	3	3	3	6
Yield (%)	3%	3%	3%	6%
Franking (%)	0%	0%	0%	0%
ROE (%) 1	27%	21%	30%	38%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Compelling value for growth

June 2021 quarterly report

NIC has released its June 2021 quarter report, announcing production and costs from its Rotary Kiln Electric Furnace (RKEF) lines at the Hengjaya and Ranger Nickel Projects at the IMIP in Indonesia. Production was in-line with our forecasts but costs rose again, driven primarily by higher thermal and metallurgical coal prices.

During the June quarter NIC produced 74,487t of NPI grading 13.6% Ni for 10,143t contained Ni, with 8,114t attributable to NIC (vs BPe 75,500t of NPI grading 13.5% Ni for 10,193t contained Ni, 8,154t attributable). Cash costs were US$9,107/t (vs BPe US$8,310/t). Ni in NPI production was effectively stable qoq with higher throughput offset by lower Ni in NPI grades. Contained nickel production and NPI grades continue to be optimised to balance high grade penalties of ~7-8% compared to benchmark NPI prices.

EBITDA of US$50.8m from NPI production was reported for the June 2021 quarter (100%-basis, vs March 2021 quarter US$50.7m) and is consistent with our calculations. Together with US$7.1m EBITDA reported for the Hengjaya Mine (vs March 2021 quarter US$4.5m), NIC is well placed to meet our CY21 EBITDA forecast of US$254m (100%-basis). Rising NPI prices and steady costs should result in a strong 2HCY21 financial performance.

Cash on hand increased from US$129.3m to US$189.9m. During the quarter NIC paid US$138m in staged consideration to lift its interest in Angel Nickel from 30% to 50% and received US$171m proceeds from the issuance of 6.5% coupon Senior Unsecured Notes.

Production and sales from the Hengjaya Mine (NIC 80%) of 542kt comfortably exceeded its expanded production rate target of +150kt per month laterite nickel ore during the quarter. The mine is on track for its annual production target of 1.5Mtpa (125kt per month). Operating costs at the mine were up slightly, but margins were maintained as prices received also lifted.

Key production metrics are summarised below:

Table 1 - NIC quarterly production summary

	Jun-20 Actual	Sep-20 Actual	Dec-20 Actual	Mar-21 Actual	Jun-21 Actual	Jun-21 BP est.	Variance qoq %	Variance vs BPe %
Hengjaya Mine								
Ore sales (t)	54,029	129,264	456,758	424,410	542,384	450,000	28%	21%
grade (% Ni)	1.80%	1.85%	1.81%	1.77%	1.78%	1.80%	0.6%	-1.1%
Contained nickel (t Ni)	973	2,391	8,267	7,512	9,654	8,100	29%	19%
Mine OPEX (US$/t)	$44.73	$40.68	$25.30	$22.78	$23.48	$21.77	3%	8%
Avg price received (US$/t)	$23.79	$31.39	$32.58	$35.40	$36.09	$35.40	2%	2%
RKEF NPI production								
NPI production (t)	69,602	69,830	77,067	71,939	74,487	75,500	4%	-1%
NPI grade (% Ni)	14.5%	15.3%	15.0%	14.0%	13.6%	13.5%	-3%	1%
Contained nickel (t)	10,104	10,700	11,527	10,068	10,143	10,193	1%	0%
Contained nickel (t, attributable)	6,062	8,560	9,222	8,054	8,114	8,154	1%	0%
Costs								
Cash costs (US$/t Ni)	$7,367	$7,201	$7,526	$8,683	$9,107	$8,310	5%	10%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

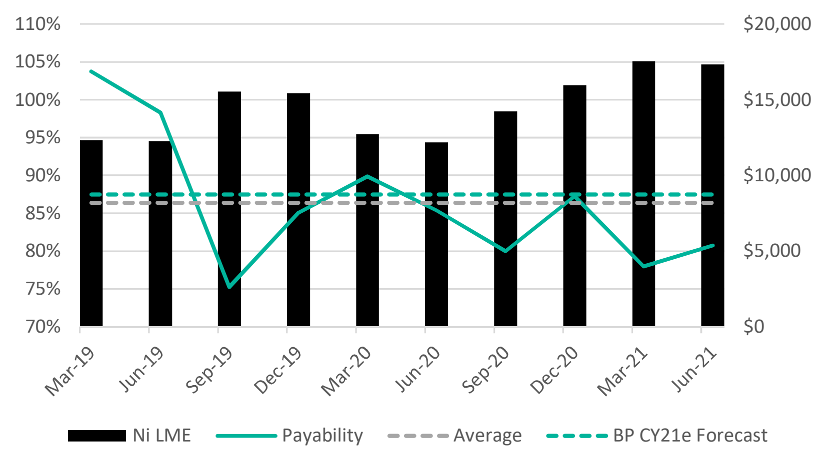
Other key takeaways from the result include:

- NIC retained guidance that Ni in NPI grades would remain lower, in the range of 13.0-14.0% over the balance of CY21, compared with an average of 14.8% Ni in NPI grade over CY21;
- While ore purchase costs were essentially in-line with the March quarter, other raw material inputs of thermal coal and coking coal saw significant price rises during the June quarter, up c.35% and c.70% respectively compared with the March quarter. These factors were the primary drivers of NIC's 5% qoq cash cost increase and miss vs our numbers;
- The Angel Nickel project construction and development has progressed in-line or ahead of our previous assumption of a 1QCY23 production start date. NIC has stated commissioning and ramp-up is on track for 2HCY22 and we have brought forward first production to the September quarter 2022. During the quarter NIC acquired a further 20% interest in Angel for US$137.6m, lifting its ownership to 50%;
- During the quarter NIC signed a MoU for two of its four RKEF lines within the IMIP to undergo the necessary modifications to allow them to produce a nickel matte product suitable for sale into the electric vehicle battery market. CAPEX is approximately US$1.0m per line;
- Strict access controls were maintained at the IMIP. However there was an incident of COVID-19 infection which did not impact production. An increased vaccination program is underway. Based on current vaccination rates of ~1,000 doses per day the IMIP should have its workforce fully vaccinated by the end of September; and
- At the Hengjaya mine the 1.5Mtpa production expansion target has been achieved. Work is underway to lift production to 3Mtpa in CY22, which has the potential to generate more meaningful EBITDA of +US$30m per year. Limonite ore stockpiles continue to be built for possible future sale to an HPAL plant within the IMIP that is targeting production beginning CY22.

Realised NPI pricing points to strong September quarter

NIC's realised pricing vs the average LME nickel price improved to ~82% in the June 2021 quarter. We estimate an average LME price for the June 2021 quarter of US$17,325/t, compared with NIC's realised pricing of US$14,167/t. The chart below shows our estimates of the apparent payability since commencement of production across the Ranger and Hengjaya RKEF lines.

Figure 1 - Realised pricing

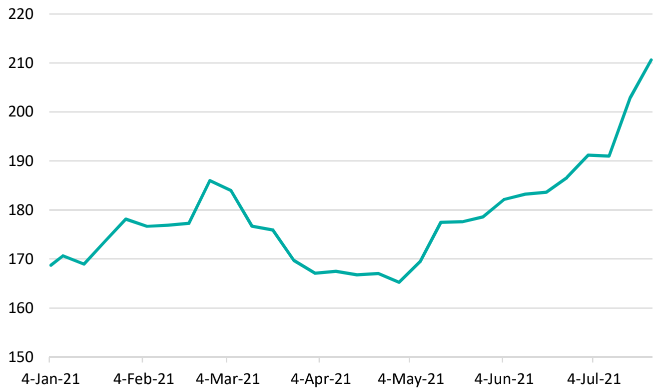


SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Benchmark NPI pricing data shows that current price realisations are ~88% of the average LME nickel price. NIC's weighted average contract sales price was 92.6% of the benchmark, for overall 81.5% realisation, correlating with our ~82% estimate.

Since the end of the June quarter, NPI pricing has risen ~15% due to supply tightness and strong stainless steel demand. Based on prices of ~US$210/Ni unit we calculate an approximate contract price for NIC's NPI that implies a realised Ni in NPI price of ~US$18,000/t, or ~25% higher than the June quarter average. Should cash costs remain stable this equates to a cash EBITDA margin of +US$8,000/t. We are only one month into the September quarter but applying this to 10kt of Ni in NPI production illustrates the potential for a strong 2HCY21 for NIC.

Figure 2 - NPI pricing - China (US$ / 1% Ni unit)



SOURCE: SMM AND BELL POTTER SECURITIES ESTIMATES

Changes to our forecasts

Beyond updating our forecasts for the June 2021 quarter production and cost report, we have made the following changes to our modelled assumptions:

- Increased our underlying unit cost assumptions reflecting raw material cost increases for both thermal and metallurgical coal. We also lower our assumed Ni NPI grade from 14.0% Ni to 13.5%, contributing to our higher cost forecast;
- Lowered our risk discount for the Angel Nickel Project, which is advancing towards production in 2HCY22, ahead of our previous assumption. Construction works were ~40% complete at 30 June. We have brought forward our assumption for the commencement of production ramp-up to the September 2022 quarter;
- Updated for our latest commodity price and exchange rate forecasts, which include a 6% increase to our forecast CY21 nickel price, partially offset by a 1% increase in the AUD:USD exchange rate; and
- Updated for the latest capital structure.

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-21	Dec-22	Dec-23	New Dec-21	Dec-22	Dec-23	Change Dec-21	Dec-22	Dec-23
Prices & currency									
Nickel price (US$/t)	16,735	17,857	18,629	17,759	17,967	18,629	6%	1%	0%
US$/A$	0.75	0.72	0.73	0.76	0.73	0.73	1%	1%	0%
Production & costs									
Ore mined (t)	1,774,410	1,800,000	1,800,000	1,866,794	1,800,000	1,800,000	5%	0%	0%
Nickel in ore (t)	31,812	32,400	32,400	33,366	32,400	32,400	5%	0%	0%
RKEF NPI production (t)	298,439	322,000	579,615	297,426	372,000	579,615	0%	16%	0%
Contained nickel (t)	41,400	44,680	75,646	40,596	49,170	75,646	-2%	10%	0%
Contained nickel (t, attributable)	33,120	35,744	60,517	32,476	39,336	60,517	-2%	10%	0%
Cash costs (US$/t Ni)	8,339	8,017	8,092	9,015	7,986	8,092	8%	0%	0%
Earnings & valuation									
Revenue (consolidated, US$m)	599	721	1,299	611	798	1,269	2%	11%	-2%
Revenue (attributable, US$m)	530	626	1,074	542	688	1,050	2%	10%	-2%
EBITDA (attributable, US$m)	216	304	557	204	335	531	-6%	10%	-5%
NPAT (reported, attributable, US$m)	178	252	445	166	271	426	-7%	8%	-4%
EPS (reported) (Acps)	9.4	13.9	24.2	8.7	14.8	23.2	-8%	6%	-4%
PER (x)	11.1	7.5	4.3	12.0	7.1	4.5	0.9	(0.4)	0.2
EPS growth (%)	15%	48%	74%	6%	69%	57%	-9%	22%	-17%
DPS (Acps)	3	3	6	3	3	6	0%	0%	0%
Yield	3%	3%	6%	3%	3%	6%	0%	0%	0%
NPV (A$/sh)	1.46	1.56	2.00	1.37	1.52	1.98	-6%	-3%	-1%
Price Target (A$/sh)		1.56			1.52			-3%	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Our updated assumptions result in a 7% cut to our forecast CY21 earnings, driven primarily by our 2% lower production and 8% higher cost forecast, as well as lower assumed payability for CY21. Earnings for CY22 are up 6% on 10% higher NPI production as we bring forward our production ramp-up at Angel Nickel. Our NPV-based, sum-of-the-parts valuation is lowered by 3%, to $1.52/sh.

With Angel Nickel likely to commence production ramp-up before end CY22 and, on our forecasts, nearly double attributable production in CY23, NIC offers excellent value at these levels. Upside to our updated price target is 45.5% and valuation multiples are low. NIC is trading on a CY21 P/E of 12.0x, in our view compelling value for an industrial style growth stock. Forward P/E's are even lower, at 7.1x and 4.5x for CY22 and CY23 respectively.

Upcoming catalysts

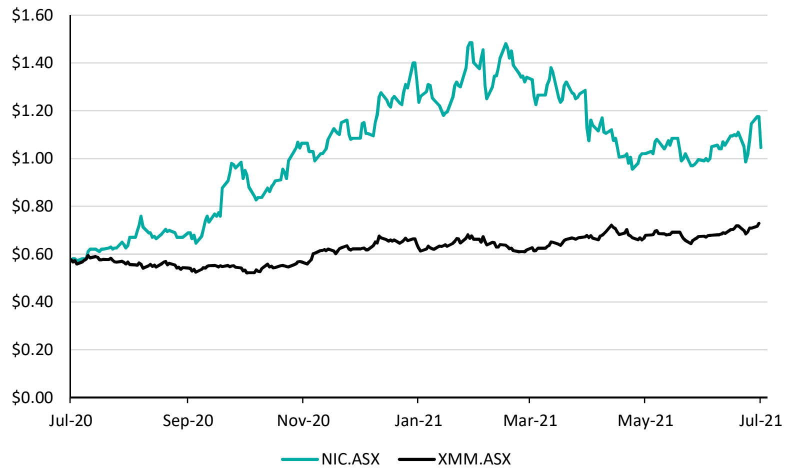
Upcoming catalysts for NIC include:

- The release of NIC's CY21 interim financial results, expected in late August 2021;
- Completion of the acquisition of the remaining 30% interest in Angel Nickel for US$210m , to lift NIC's ownership to 80%, by end CY21 and possibly earlier;
- Ongoing production updates from the Hengjaya and Ranger Nickel RKEF lines. Both projects have now achieved established production levels above nameplate;
- Updates on NPI pricing and the effective Ni payability, which we believe the market will still be considering as a measure of NIC's nickel price exposure;
- Updates on the construction of the Angel Nickel project, comprising 4 next-generation rotary-kiln-electric-furnace (RKEF) lines being developed within the Indonesia Weda Bay Industrial Park (IWIP), for which NIC has executed a binding agreement to acquire a 80% interest for US$560m total, undiscounted, consideration;

- Progress updates for the Hengjaya Mine, where a major production expansion is complete and the sustainability of production of +150kt ore per month and costs of ~US$20/t are targeted;
- The release of NIC's September 2021 quarterly production and cost report, expected in late October 2021; 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 3 - 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’) was formed in 2007 and listed on the ASX in 2018. Its operations are focused in Central Sulawesi, Indonesia, where it holds an 80% 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. The RKEF lines are located in an existing, fully integrated stainless steel production facility, the Indonesian Morowali Industrial Park (IMIP).

First production from the Hengjaya Lines was achieved on 31 January 2019 and the Ranger Lines commenced production during the December quarter 2019. Both projects have since achieved steady state production of ~20ktpa contained Ni in NPI, exceeding nameplate production of ~16ktpa each at lower than planned operating costs.

In November 2020 NIC executed a binding agreement to acquire a 70% interest (since increased to 80%) in the Angel Nickel Project comprising four new generation RKEF NPI production lines and a captive 380MW power station. Angel Nickel is currently under construction within the Indonesia Weda Bay Industrial Park (‘IWIP’) on Halmahera Island in Indonesia.

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 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, TP$1.52/sh (from $1.56/sh)

Our updated assumptions result in a 7% cut to our forecast CY21 earnings, driven primarily by our 2% lower production and 8% higher cost forecast. Earnings for CY22 are up 6% on 10% higher NPI production at Angel Nickel. NIC offers excellent value at these levels. Upside to our updated price target is 45.5% and valuation multiples are low. NIC is trading on a CY21 P/E of 12.0x, in our view compelling value for an industrial style stock set to nearly double production in CY23. Forward P/E’s are lower, at 7.1x and 4.5x for CY22 and CY23 respectively. Retain Buy.

Valuation: $1.52/sh

Our 12-month forward NIC valuation incorporates DCF models of its attributable interests in the Hengjaya laterite nickel ore mine (HM), an 80% interest in the two Hengjaya Nickel RKEF lines and an 80% 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% in 2023) in the Hengjaya laterite nickel ore mine.

We also include a risk-adjusted, NPV-based valuation for NIC’s prospective 80% interest in the Angel Nickel Industry (ANI) project, a notional value for other exploration and development projects, an estimate of corporate overhead costs and NIC’s last reported net cash position. Our valuation is calculated on a fully diluted basis. Following the latest update, our valuation stands at $1.52/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 28 July 2021

Recommendation	Buy
Price	$1.045
Target (12 months)	$1.52

Table 3 - Financial summary

PROFIT AND LOSS

Year ending 31 Dec. (from 2020)	Unit	2019a*	2020a	2021e	2022e	2023e
Revenue	US$m	236.1	523.5	610.9	797.6	1,268.6
Expense	US$m	(138.9)	(329.0)	(356.8)	(376.6)	(602.3)
EBITDA	**US$m**	**97.2**	**194.5**	**254.1**	**421.0**	**666.3**
Depreciation	US$m	(16.4)	(36.8)	(40.9)	(53.7)	(66.8)
EBIT	US$m	80.8	157.7	213.2	367.3	599.6
Net interest expense	US$m	(2.1)	(4.7)	(0.5)	(6.8)	(0.1)
Unrealised gains (Impairments)	US$m	7.4	-	-	-	-
Other	US$m	5.4	1.6	-	-	-
PBT	**US$m**	**91.5**	**154.6**	**212.7**	**360.4**	**599.5**
Tax expense	US$m	(0.2)	(0.9)	(3.8)	(18.2)	(65.3)
Consolidated profit (loss) for the year	US$m	91.3	153.7	208.9	342.2	534.2
Non-Controlling Interest	US$m	34.8	43.1	43.3	71.1	108.4
Attributable NPAT (reported)	**US$m**	**56.5**	**110.6**	**165.7**	**271.2**	**425.8**
NPAT (underlying)	US$m	49.1	110.6	165.7	271.2	425.8

CASH FLOW

Year ending 31 Dec. (from 2020)	Unit	2019a*	2020a	2021e	2022e	2023e
OPERATING CASHFLOW						
Receipts	US$m	212.7	517.6	667.5	778.9	1,221.5
Payments	US$m	(169.9)	(358.9)	(307.9)	(371.7)	(545.8)
Tax	US$m	(4.7)	(9.1)	0.9	(3.8)	(18.2)
Net interest	US$m	0.1	0.3	(0.5)	(6.8)	(0.1)
Other	US$m	-	-	-	-	-
Operating cash flow	**US$m**	**38.2**	**150.0**	**360.1**	**396.7**	**657.3**
INVESTING CASHFLOW						
Property, plant and equipment	US$m	(29.6)	(7.4)	(561.8)	(10.9)	(11.7)
Mine development	US$m	-	(147.0)	-	-	-
Exploration & evaluation	US$m	-	-	(0.4)	(0.4)	(0.4)
Other	US$m	5.8	(30.0)	-	-	-
Investing cash flow	**US$m**	**(23.8)**	**(184.4)**	**(562.2)**	**(11.3)**	**(12.1)**
Free Cash Flow	*US$m*	*14.4*	*(34.5)*	*(202.1)*	*385.4*	*645.2*
FINANCING CASHFLOW						
Share issues/(buy-backs)	US$m	-	430.0	-	-	-
Debt proceeds	US$m	-	-	175.0	-	-
Debt repayments	US$m	(29.9)	(25.3)	(45.0)	-	-
Distributions to non-controlling interests	US$m	17.0	(43.3)	(41.0)	(59.9)	(68.7)
Dividends	US$m	-	(15.4)	(57.0)	(55.1)	(110.2)
Other	US$m	(0.4)	(12.4)	-	-	-
Financing cash flow	**US$m**	**(13.3)**	**333.6**	**32.0**	**(115.0)**	**(178.8)**
Change in cash	*US$m*	*1.1*	*299.2*	*(170.1)*	*270.4*	*466.4*

BALANCE SHEET

Year ending 31 Dec. (from 2020)	Unit	2019a*	2020a	2021e	2022e	2023e
ASSETS						
Cash & short term investments	US$m	49.8	351.4	181.3	451.7	918.1
Accounts receivable	US$m	97.2	117.8	61.1	79.8	126.9
Property, plant & equipment	US$m	628.5	600.8	1,129.9	1,087.1	1,032.0
Mine development expenditure	US$m	-	-	-	-	-
Exploration & evaluation	US$m	-	-	0.4	0.8	1.2
Other	US$m	122.0	164.7	164.7	164.7	164.7
Total assets	US$m	**897.5**	**1,234.7**	**1,537.4**	**1,784.1**	**2,242.9**
LIABILITIES						
Accounts payable	US$m	52.5	40.3	89.2	94.2	150.6
Income tax payable	US$m	0.7	3.8	3.8	18.2	65.3
Borrowings	US$m	65.0	45.0	187.9	187.9	187.9
Other	US$m	57.2	59.4	59.4	59.4	59.4
Total liabilities	US$m	**175.4**	**148.4**	**340.3**	**359.7**	**463.2**
SHAREHOLDER'S EQUITY						
Share capital	US$m	315.5	732.9	732.9	732.9	732.9
Reserves	US$m	19.2	19.2	19.2	19.2	19.2
Retained earnings	US$m	92.8	187.9	296.6	512.6	828.2
Total equity to NIC holders	**US$m**	**427.5**	**940.1**	**1,048.7**	**1,264.8**	**1,580.4**
Non-controlling interest	US$m	294.7	146.2	148.4	159.6	199.3
Total equity	**US$m**	**722.1**	**1,086.2**	**1,197.1**	**1,424.4**	**1,779.7**
Weighted average shares	m	1,631.2	1,948.7	2,515.3	2,515.0	2,515.0

CAPITAL STRUCTURE

Shares on issue	m		2,515.0
Total shares on issue	**m**	(add 0.0m escrow and placement shares)	**2,515.0**
Share price	**A$/sh**		**1.045**
Market capitalisation	A$m		2,628.2
Net cash	A$m		20.3
Enterprise value (undiluted)	**A$m**		**2,608.0**
Options outstanding (m)	m		0.0
Options (in the money)	m		0.0
Issued shares (diluted for options)	m		2,515.0
Market capitalisation (diluted)	A$m		2,628.2
Net cash + options	A$m		20.3
Enterprise value (diluted)	**A$m**		**2,608.0**

MAJOR SHAREHOLDERS

Shareholder	%	m
Shanghai Decent (SDI)	15.7%	395.5
Tanito Group (PT Karunia)	15.0%	378.4
Baillie Gifford	6.2%	155.7
Directors and Management	5.5%	137.9
Shanghai Wanlu	4.8%	121.3

FINANCIAL RATIOS

Year ending 31 Dec. (from 2020)	Unit	2019a*	2020a	2021e	2022e	2023e
VALUATION						
Attributable NPAT	US$m	56.5	110.6	165.7	271.2	425.8
Attributable NPAT	A$m	82.5	160.1	219.2	371.4	583.2
Reported EPS	Ac/sh	5.1	8.2	8.7	14.8	23.2
Adjusted EPS	Ac/sh	4.4	8.2	8.7	14.8	23.2
EPS growth	%	46%	62%	6%	69%	57%
PER [1]	x	10.3x	12.7x	12.0x	7.1x	4.5x
DPS	Ac/sh	-	3.0	3.0	3.0	6.0
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	3%	3%	3%	6%
FCF/share [1]	Ac/sh	2.6	(2.6)	(10.6)	21.0	35.1
FCF yield [1]	%	2%	-2%	-10%	20%	34%
P/FCFPS [1]	x	40.4x	-40.8x	-9.8x	5.0x	3.0x
EV/EBITDA [1]	x	19.7x	9.9x	7.6x	4.6x	2.9x
EBITDA margin	%	41%	37%	42%	53%	53%
EBIT margin	%	34%	30%	35%	46%	47%
Return on assets [1]	%	26%	17%	15%	21%	27%
Return on equity [1]	%	49%	27%	21%	30%	38%
LIQUIDITY & LEVERAGE						
Net debt (cash)	$m	15	(306)	7	(264)	(730)
ND / E	%	4%	-33%	1%	-21%	-46%
ND / (ND + E)	%	3%	-48%	1%	-26%	-86%
EBITDA / Interest	x	46.1x	40.9x	533.3x	61.5x	8149.5x

ATTRIBUTABLE DATA - NICKEL MINES LTD

Year ending 31 Dec. (from 2020)	Unit	2019a*	2020a	2021e	2022e	2023e
Revenues	US$m	95.7	391.3	542.3	688.4	1,050.1
EBITDA	US$m	35.6	139.7	203.9	335.3	530.9
NPAT	US$m	56.5	110.6	165.7	271.2	425.8
Net distributable cash flow	US$m	1.0	269.3	(153.1)	243.4	419.8
EV/EBITDA	x	50.1	12.9	9.7	5.7	3.6
PER	x	20.7	12.7	12.0	7.1	4.5
P/FCF	x	nm	nm	nm	7.9	4.6

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*	2020a	2021e	2022e	2023e
Nickel	US$/lb	$7.02	$6.25	$8.06	$8.15	$8.45
Nickel	US$/t	$15,483	$13,775	$17,759	$17,967	$18,629
Currency						
AUD:USD		0.68	0.69	0.76	0.73	0.73

ASSUMPTIONS - Production & costs

Year ending 31 Dec. (from 2020)	Unit	2019a*	2020a	2021e	2022e	2023e
Hengjaya Mine						
Ore mined	wmt	428,382	795,650	1,866,794	1,800,000	1,800,000
Ore grade	% Ni	1.9%	1.8%	1.8%	1.8%	1.8%
Nickel in ore	t Ni	8,178	14,479	33,366	32,400	32,400
Nickel in ore (attributable)	t Ni	6,542	11,583	26,693	25,110	17,577
RKEF (IMIP)						
NPI production	t	152,408	295,897	297,426	372,000	579,615
Contained nickel	t Ni	20,988	43,622	40,596	49,170	75,646
Contained nickel (attributable)	t Ni	11,742	30,619	32,476	39,336	60,517
Costs						
Cash costs	US$/t Ni	$7,689	$7,330	$9,015	$7,986	$8,092
All-in-Costs (AIC)	US$/t Ni	$7,804	$7,414	$9,125	$8,129	$8,221

VALUATION

Ordinary shares (m)						**2,515.0**
Options in the money (m)						-
Total shares diluted (m)						**2,515.0**
Valuation	**Now**		**+12 months**		**+24 mths**	
Sum-of-the-parts	**A$m**	**A$/sh**	**A$m**	**A$/sh**	**A$m**	**A$/sh**
IMIP RKEF (NPV12)	2,412.3	0.96	2,627.6	1.04	2,722.2	1.08
IWIP RKEF (NPV12)	1,025.2	0.41	1,187.2	0.47	1,982.8	0.79
Hengjaya Mine (NPV12)	5.2	0.00	6.2	0.00	25.9	0.01
Other exploration	42.0	0.02	42.0	0.02	42.0	0.02
Corporate overheads	(44.7)	(0.02)	(45.1)	(0.02)	(45.6)	(0.02)
Subtotal (EV)	3,440.0	1.37	3,817.8	1.52	4,727.3	1.88
Net cash (debt)	20.3	0.01	(6.5)	(0.00)	263.9	0.10
Total (undiluted)	**3,460.2**	**1.38**	**3,811.2**	**1.52**	**4,991.2**	**1.98**
Dilutive effect of options		-		-		-
Add cash from options	-	-	-	-	-	-
Total (diluted)	**3,460.2**	**1.38**	**3,811.2**	**1.52**	**4,991.2**	**1.98**

**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.

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