

# Nickel Mines (NIC)

Rating: Buy | Risk: High | Price Target: \$1.35

## Angel Nickel winging ahead of schedule

### Key Information

Current Price (\$ps)	1.15
12m Target Price (\$ps)	1.35
52 Week Range (\$ps)	0.89 - 1.49
Target Price Upside (%)	18.0%
TSR (%)	24.0%
Reporting Currency	USD
Market Cap (\$m)	2,880
Sector	Materials
Avg Daily Volume (m)	4.7
ASX 200 Weight (%)	0.13%

### Fundamentals

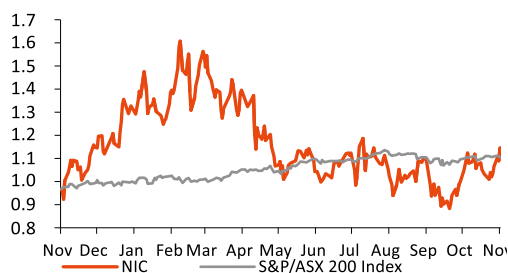
YE 31 Dec (USD)	FY20A	FY21E	FY22E	FY23E
Sales (\$m)	523	641	876	1,245
NPAT (\$m)	111	165	230	353
EPS (cps)	5.3	6.6	9.1	14.0
EPS Growth (%)	49.3%	23.9%	39.3%	53.6%
DPS (cps) (AUD)	4.3	6.6	8.2	9.6
Franking (%)	0%	0%	0%	0%

### Ratios

YE 31 Dec	FY20A	FY21E	FY22E	FY23E
P/E (x)	16.1	12.8	9.2	6.0
EV/EBITDA (x)	10.6	8.2	5.5	3.8
Div Yield (%)	3.5%	6.0%	7.2%	8.4%
Payout Ratio (%)	56.7%	76.2%	65.7%	49.9%

### Price Performance

YE 31 Dec	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	15.4%	4.8%	12.4%	3.8%
Absolute (%)	16.2%	5.0%	11.2%	18.0%
Benchmark (%)	0.8%	0.2%	(1.2%)	14.2%



Price performance indexed to 100

Source: FactSet

### Major Shareholders

Shanghai Decent (Tsingshan)	18.6%
PT Karunia Bara Perkasa	16.1%
BlackRock Investment Management (UK) Ltd	6.5%
Norm Seckold	5.8%
Shanghai Wanlu	5.7%

### Andrew Hines | Head of Research

+61 3 9268 1178

andrew.hines@shawandpartners.com.au

### Michael Clark | Analyst

+61 3 9268 1148

michael.clark@shawandpartners.com.au

### Event

Nickel Mines has announced that its new investment in the Angel Nickel Project in Indonesia is well ahead of schedule and will be producing nickel pig iron in the 1Q of 2022, up to 8 months earlier than the October 2022 contractual delivery date. We upgrade our forecasts for the earlier production and to allow for above nameplate capacity production. Our forecasts lift ~10%pa and our price target increased from \$1.24 to \$1.35ps.

### Highlights

- Nickel Mines has an 80% economic interest in two Rotary Kiln Electric Furnace (RKEF) projects in the Indonesia Morowali Industrial Park (IMIP). The Chinese steel company Tsingshan holds the other 20%. Each project produces ~21ktpa nickel (100% basis). Nickel Mines is acquiring an 80% stake in the Angel Nickel Project at Weda Bay, also in Indonesia, in partnership with Tsingshan.
- Nickel Mines has announced that the Angel Nickel Project is running well ahead of schedule and is now expected to produce nickel pig iron in 1Q22, well ahead of the original schedule of October 2022. We had already assumed an earlier start but have upgraded our EBITDA forecast by 8% in 2022 to allow for the additional production.
- Although production will be earlier than expected in 1Q22, sales of nickel pig iron cannot commence until the Industrial Business Licence is issued. That is not expected until the 2Q22 and so early production will be stockpiled.
- The initial production rates will be constrained by power availability until the new Angel Nickel power plant is commissioned in September 2022.
- We have also taken this opportunity to increase our production assumption for the Angel Nickel Project when running at full capacity. Our modelling previously assumed only name plate capacity of 9ktpa (100%) for each RKEF unit, but we increase that by 20% on the basis that these units are likely to operate above nameplate. The similar units at the Ranger and Hengjaya projects are operating at 30% above nameplate. This increases our 2023+ forecasts by 10% at the EBITDA level.
- Nickel Mines has been impacted by high costs in 2021, predominantly due to high coal prices. Costs in the September quarter averaged US\$10,377/t of NPI production. Coal prices have surged due to supply constraints but have peaked since the end of the September quarter with the Chinese government taking steps to rein-in what they see as excessive prices. We now think the worst has passed on costs and we model Nickel Mines costs reducing to around US\$8,600/t in 2022 and US\$8,200/t in 2023.
- Achieved prices improved over the September quarter – average achieved prices were up 19.4% to US\$16,701/t from US\$13,991/t in the June quarter. Pricing has continued to improve beyond the end of the quarter with NPI now trading at a small premium to LME nickel.

Revisions	2021f			2022f			2023f			2023f		
	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %
Revenue (US\$m)	641	641	0%	876	835	5%	1,245	1,136	10%	1,273	1,162	10%
EBITDA (US\$m)	251	251	0%	377	350	8%	549	501	10%	562	512	10%
EBIT (US\$m)	215	215	0%	340	313	9%	512	464	10%	525	476	10%
NPAT (US\$m)	165	165	0%	230	210	9%	352	318	11%	362	327	11%

### Recommendation

We recently upgraded our Recommendation to BUY from HOLD, and price target to A\$1.24 (from A\$1.05). We increase our price target further to A\$1.35ps. Our price target is based on our DCF valuation.

In our view the worst of the margin pressure is now behind Nickel Mines, and the strong growth outlook as Angel Nickel comes on-line is attractive. On our forecasts, Nickel Mines is trading at just 6x earnings in CY23.

## Nickel Mines

### Materials Materials

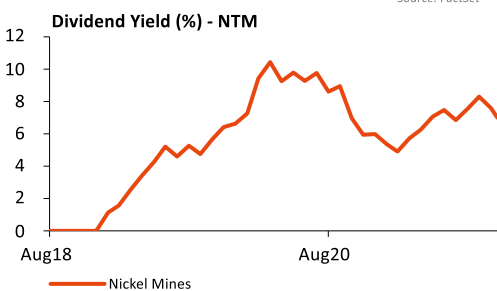
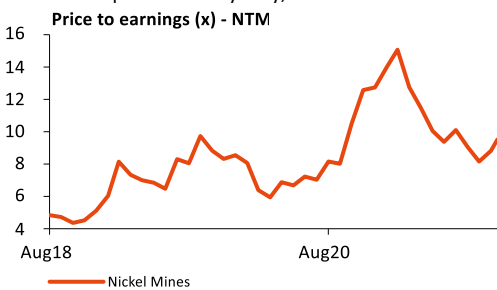
FactSet: NIC-AU / Bloomberg: NIC AU

#### Key Items

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	1.15
Target Price (\$ps)	1.35
52 Week Range (\$ps)	0.89 - 1.49
Shares on Issue (m)	2,515
Market Cap (\$m)	2,880
Enterprise Value (\$m)	2,820
TSR (%)	24.0%
Valuation per share (cps) (AUD)	1.35
Valuation (\$m)	3,397.64

#### Company Description

Nickel Mines Ltd. is a nickel producer with assets in Indonesia and operates in partnership with Tsingshan, the world's largest stainless steel producer. Nickel Mines produces nickel ore from the Hengjaya Mine which supplies feedstock to the Indonesia Morowali Industrial Park (IMIP). The company's main asset is an 80% stake in the Hengjaya and Ranger rotary kiln electric furnaces (RKEF) located in IMIP. The company was founded on September 12, 2007 and is headquartered in Sydney, Australia.



## Financial Year End: 31 December

Investment Summary (USD)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS (Reported) (cps)	3.5	5.3	6.6	9.1	14.0
EPS (Underlying) (cps)	3.5	5.3	6.6	9.1	14.0
EPS (Underlying) Growth (%)	(42.3%)	49.3%	23.9%	39.3%	53.6%
PE (Underlying) (x)	13.0	16.1	12.8	9.2	6.0
EV / EBIT (x)	25.5	13.1	9.6	6.1	4.0
EV / EBITDA (x)	21.2	10.6	8.2	5.5	3.8
DPS (cps) (AUD)	0.0	4.3	6.6	8.2	9.6
Dividend Yield (%)	0.0%	3.5%	6.0%	7.2%	8.4%
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0.0%	56.7%	76.2%	65.7%	49.9%
Profit and Loss (USD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	236	523	641	876	1,245
Sales Growth (%)	263.5%	121.8%	22.4%	36.7%	42.0%
Other Operating Income	1	0	0	0	0
EBITDA	97	194	251	377	549
EBITDA Margin (%)	41.2%	37.1%	39.2%	43.0%	44.1%
Depreciation & Amortisation	(16)	(37)	(37)	(37)	(37)
EBIT	80.8	157.7	214.7	340.2	512.3
EBIT Margin (%)	34.2%	30.1%	33.5%	38.8%	41.2%
Net Interest	11	(3)	(2)	(5)	(4)
Pretax Profit	91	155	213	336	509
Minorities	35	43	48	72	105
NPAT Underlying	57	111	165	230	353
Significant Items	0	0	0	0	0
NPAT Reported	57	111	165	230	353
Cashflow (USD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	81	158	215	340	512
Payments to Suppliers	(170)	(359)	(389)	(499)	(695)
Receipts from Customers	213	518	641	876	1,245
Tax Paid	(5)	(9)	0	0	(34)
Net Interest	0	0	4	1	2
Depreciation & Amortisation	0	0	0	0	0
Other	0	0	(59)	(77)	(117)
Operating Cashflow	38	150	196	301	400
Capex	(30)	(7)	(3)	(3)	(3)
Acquisitions and Investments	(1)	(177)	(460)	0	0
Disposal of Fixed Assets/Investments	7	0	0	0	0
Other	0	0	0	0	0
Investing Cashflow	(24)	(184)	(463)	(3)	(3)
Equity Raised / Bought Back	(0)	418	0	0	0
Dividends Paid	0	(15)	(101)	(126)	(151)
Change in Debt	(30)	(25)	100	(50)	(50)
Other	17	(43)	(53)	(77)	(110)
Financing Cashflow	(13)	334	(54)	(253)	(311)
Exchange Rate Effect	(0)	2	0	0	0
Net Change in Cash	1	302	(321)	45	86
Balance Sheet (USD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	50	351	31	75	162
Accounts Receivable	97	118	123	168	239
Inventory	56	61	123	168	239
Other Current Assets	1	8	8	8	8
PPE	629	601	709	676	642
Total Assets	897	1,235	1,407	1,508	1,702
Accounts Payable	52	40	48	62	86
Short Term Debt	4	13	13	0	0
Long Term Debt	61	32	132	95	45
Income Taxes Payable	1	4	4	4	4
Other	57	59	60	93	110
Total Liabilities	175	148	256	254	245
Total Shareholder Equity	722	1,086	1,151	1,255	1,457
Ratios	FY19A	FY20A	FY21E	FY22E	FY23E
ROE (%)	15.3%	16.2%	17.0%	21.8%	29.2%
Gearing (%)	3.4%	(48.4%)	10.2%	1.7%	(9.8%)
Net Debt / EBITDA (x)	0.2	(1.6)	0.5	0.1	(0.2)

### Key risks

- The nickel price is volatile and is often driven by arbitrary policy changes such as the Indonesian export ban. As such, the price of nickel is relatively difficult to forecast and the actual price may differ substantially from our forecasts.
- Some investors may be concerned that the company operates in Indonesia, in partnership with a Chinese company and with Indonesian and Chinese strategic shareholders. However, it Nickel Mines is 'inside the fence' and not an outsider. The relationship with Tsingshan is strong, and Tsingshan has a strong relationship with Indonesian authorities.
- Smaller companies carry more significant 'key personnel' risk than larger organisations. If senior management depart the company, then it could delay projects or exacerbate operational risks.

### Core drivers and catalyst

- Nickel is predominantly used in the production of stainless steel (69% of consumption) but is finding growing use as a cathode in lithium ion batteries. The electrification of light vehicles is likely to see increased demand for nickel.
- Nickel Mines has an 80% economic interest in two RKEF projects in the IMIP. At a mid-cycle nickel price of US\$6.50/lb, the two projects will generate combined free cash flow of about US\$210mpa (100% basis).
- Nickel Mines is acquiring an 80% stake in the Angel Nickel Project at Weda Bay, also in Indonesia in partnership with Tsingshan.

## Rating Classification

<b>Buy</b>	Expected to outperform the overall market
<b>Hold</b>	Expected to perform in line with the overall market
<b>Sell</b>	Expected to underperform the overall market
<b>Not Rated</b>	Shaw has issued a factual note on the company but does not have a recommendation

## Risk Rating

<b>High</b>	Higher risk than the overall market – investors should be aware this stock may be speculative
<b>Medium</b>	Risk broadly in line with the overall market
<b>Low</b>	Lower risk than the overall market

**RISK STATEMENT:** Where a company is designated as ‘High’ risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

### Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	85	84%
Hold	15	15%
Sell	1	1%

### History of Investment Rating and Target Price - Nickel Mines

Date	Closing Price (\$)	Target Price (\$)	Rating
17-Nov-21	1.15	1.35	Buy
28-Oct-21	1.03	1.24	Buy
26-Aug-21	1.03	1.05	Hold
29-Jul-21	1.11	1.05	Sell
27-Apr-21	1.13	1.01	Sell
25-Feb-21	1.49	1.26	Sell
25-Jan-21	1.40	1.26	Hold
2-Dec-20	1.05	1.28	Buy
16-Oct-20	0.89	1.33	Buy
31-Aug-20	0.68	1.08	Buy
7-Jul-20	0.60	1.04	Buy

## Disclaimer

Shaw and Partners Limited ABN 24 003 221 583 (“Shaw”) is a Participant of ASX Limited, Chi-X Australia Pty Limited and holder of Australian Financial Services Licence number 236048.

**ANALYST CERTIFICATION:** The Research Analyst who prepared this report hereby certifies that the views expressed in this document accurately reflect the analyst's personal views about the Company and its financial products. Neither Shaw nor its Research Analysts received any direct financial or non-financial benefits from the company for the production of this document. However, Shaw Research Analysts may receive assistance from the company in preparing their research which can include attending site visits and/or meetings hosted by the company. In some instances the costs of such site visits or meetings may be met in part or in whole by the company if Shaw considers it is reasonable given the specific circumstances relating to the site visit or meeting. As at the date of this report, the Research Analyst does not hold, either directly or through a controlled entity, securities in the Company that is the subject of this report, where they do hold securities those interests are not material. Shaw restricts Research Analysts from trading in securities outside of the ASX/S&P100 for which they write research. Other Shaw employees may hold interests in the company, but none of those interests are material.

**DISCLAIMER:** This report is published by Shaw to its clients by way of general, as opposed to personal, advice. This means it has been prepared for multiple distribution without consideration of your investment objectives, financial situation and needs (“Personal Circumstances”). Accordingly, the advice given is not a recommendation that a particular course of action is suitable for you and the advice is therefore not to be acted on as investment advice. You must assess whether or not the advice is appropriate for your Personal Circumstances before making any investment decisions. You can either make this assessment yourself, or if you require a personal recommendation, you can seek the assistance of your Shaw client adviser. This report is provided to you on the condition that it not be copied, either in whole or in part, distributed to or disclosed to any other person. If you are not the intended recipient, you should destroy the report and advise Shaw that you have done so. This report is published by Shaw in good faith based on the facts known to it at the time of its preparation and does not purport to contain all relevant information with respect to the financial products to which it relates. The research report is current as at the date of publication until it is replaced, updated or withdrawn. Although the report is based on information obtained from sources believed to be reliable, Shaw does not make any representation or warranty that it is accurate, complete or up to date and Shaw accepts no obligation to correct or update the information or opinions in it. If you rely on this report, you do so at your own risk. Any projections are indicative estimates only and may not be realised in the future. Such projections are contingent on matters outside the control of Shaw (including but not limited to market volatility, economic conditions and company-specific fundamentals) and therefore may not be realised in the future. Past performance is not a reliable indicator of future performance. Except to the extent that liability under any law cannot be excluded, Shaw disclaims liability for all loss or damage arising as a result of any opinion, advice, recommendation, representation or information expressly or impliedly published in or in relation to this report notwithstanding any error or omission including negligence.

Depending on the timing and size of your investment, your portfolio composition may differ to the model. Performance figures are derived from the inception date of the model and its investment transactions from that date, therefore the performance for your portfolio may be different. If you have any questions in connection with differences between your portfolio and the model, you should speak with your adviser.

**IMPORTANT INFORMATION TO CONSIDER:** It is important that before making a decision to invest in a Shaw Managed Accounts, a managed fund, an exchange traded fund, an individual hybrid security or listed debt instrument that you read the relevant Product Disclosure Statement (“PDS”). The PDS will contain information relevant to the specific product, including the returns, features, benefits and risks. The PDS can be found at: [www.shawandpartners.com.au/media/1348/shawmanagedaccounts\\_pds.pdf](http://www.shawandpartners.com.au/media/1348/shawmanagedaccounts_pds.pdf).

**RISKS ASSOCIATED WITH HYBRID SECURITIES:** Hybrid securities and listed debt instruments differ from investments in equities and cash products in a number of important respects. The liquidity risk associated with an investment in hybrid securities and listed debt instruments will generally be greater than that associated with equities. The credit risk associated with hybrid securities and listed debt instruments is higher than that of a cash product or term deposit. Some hybrid securities may be perpetual in nature, meaning that they can only be redeemed or exchanged for cash or equity at the issuer's option. Hybrids may also contain terms which automatically trigger the deferral of an interest payment or cause the issuer to repay the hybrid earlier or later than anticipated. ASIC has published information to assist consumers in understanding the risks and benefits associated with an investment in hybrid securities or listed debt instruments. This information can be found under the heading ‘Complex Investments’ at [www.moneysmart.gov.au/investing](http://www.moneysmart.gov.au/investing).

**DISCLOSURE:** Shaw will charge commission in relation to client transactions in financial products and Shaw client advisers will receive a share of that commission. Shaw, its authorised representatives, its associates and their respective officers and employees may have earned previously or may in the future earn fees and commission from dealing in the Company's financial products.

<b>Sydney   Head Office</b>	<b>Melbourne</b>	<b>Brisbane</b>	<b>Adelaide</b>	<b>Canberra</b>	<b>Perth</b>	<b>Noosa</b>
Level 7, Chifley Tower	Level 36	Level 28	Level 23	Level 7	Level 20	Suite 11a Q Place
2 Chifley Square	120 Collins Street	111 Eagle Street	91 King William Street	54 Marcus Clarke Street	108 St Georges Terrace	2 Quamby Place
Sydney NSW 2000	Melbourne VIC 3000	Brisbane QLD 4000	Adelaide SA 5000	Canberra ACT 2600	Perth WA 6000	Noosa Heads QLD 4567
Telephone: +61 2 9238 1238	Telephone: +61 3 9268 1000	Telephone: +61 7 3036 2500	Telephone: +61 8 7109 6000	Telephone: +61 2 6113 5300	Telephone: +61 8 9263 5200	Telephone: +61 7 3036 2570
Toll Free: 1800 636 625	Toll Free: 1800 150 009	Toll Free: 1800 463 972	Toll Free: 1800 636 625	Toll Free: 1800 636 625	Toll Free: 1800 198 003	Toll Free: 1800 271 201