

Nickel Mines (NIC)

Rating: Hold | Risk: High | Price Target: \$1.05

1H21 result – peak margin pressure in 2Q21, 2H21 should be better

Key Information

Current Price (\$ps)	1.04
12m Target Price (\$ps)	1.05
52 Week Range (\$ps)	0.64 - 1.63
Target Price Upside (%)	1.0%
TSR (%)	7.6%
Reporting Currency	USD
Market Cap (\$m)	2,616
Sector	Materials
Avg Daily Volume (m)	5.9
ASX 200 Weight (%)	0.13%

Fundamentals

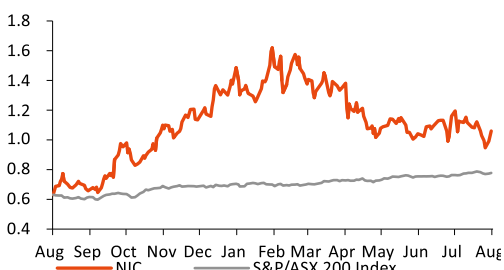
YE 31 Dec (USD)	FY20A	FY21E	FY22E	FY23E
Sales (\$m)	523	599	856	1,117
NPAT (\$m)	111	147	217	288
EPS (cps)	5.3	5.9	8.6	11.5
EPS Growth (%)	49.3%	10.6%	47.3%	32.9%
DPS (cps) (AUD)	4.3	6.6	9.6	13.8
Franking (%)	0%	0%	0%	0%

Ratios

YE 31 Dec	FY20A	FY21E	FY22E	FY23E
P/E (x)	16.1	12.9	8.8	6.6
EV/EBITDA (x)	9.5	8.1	5.2	4.0
Div Yield (%)	3.5%	6.6%	9.3%	13.2%
Payout Ratio (%)	56.7%	85.4%	81.2%	87.3%

Price Performance

YE 31 Dec	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(13.0%)	(1.1%)	(8.4%)	45.1%
Absolute (%)	(11.1%)	2.0%	(2.2%)	68.2%
Benchmark (%)	1.9%	3.1%	6.2%	23.1%



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%

Event

Nickel Mines has reported 1H21 NPAT of US\$65m which is a 168% increase on 1H20 as Nickel Mines economic interest in the Ranger and Hengjaya RKEFs increased from 60% to 80%. The result was below our forecast US\$83m driven by lower price realisations and higher costs. Margins should improve in the second half and **we upgrade our recommendation to Hold**.

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) at a cost of ~US\$9,000/t. Nickel Mines is acquiring a 80% stake in the Angel Nickel Project at Weda Bay, also in Indonesia in partnership with Tsingshan.
- Costs have climbed in the half, with the average cost of production increasing from US\$7,300/t to US\$8,900/t from 1H20 to 1H21. The increase has been driven by;
 - Tsingshan has decided to produce a lower grade NPI (down from ~15% to ~14%) to optimise its blend for stainless steel production. This may favour Tsingshan, but it lowers contained nickel production for Nickel Mines.
 - A change in pricing of nickel ore feed which is now linked to LME nickel prices. This adds US\$500/t (~7%) to the cost base. Nickel prices are expected to remain elevated and so we assume higher priced ore feed in future periods.
 - Higher coal prices have resulted in higher power costs. The combination of higher power cost and the higher price for reductant coal has added about US\$1,200/t to costs over the past two quarters.
- We assume that costs remain elevated in 2021 at around US\$9,000/t before reducing back to US\$8,500/t in CY22 as coal prices normalise.
- Realised pricing has improved in recent months as the Chinese NPI gap to LME nickel has narrowed. Nickel Mines should see improving margins in 2H21.
- We have changed the way we model the Hengjaya mine to align with Nickel Mines reporting methodology. Revenue and costs not included in the P&L, instead the mine's net EBITDA is treated as a cost offset. This has no impact on our bottom line forecasts or valuation, but it reduces reported revenue by ~US\$60mpa.

Nickel Mines 1H21 result (US\$m)	1H21	1H20	Change	1H21f	diff f'cast
Revenue (100%)	289	228	27%	325	-11%
EBITDA (100%)	106	70	51%	117	-10%
NPAT (100%)	83	46	82%	98	-15%
Underlying NPAT (NIC share)	65	24	168%	83	-21%
Dividend (cps)	2	1	100%	2	0%
Cash flow from operations	86	79	9%	97	-12%

	2021f			2022f			2023f		
	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %
Revenue (US\$m)	599	663	-10%	856	930	-8%	1,117	1,192	-6%
EBITDA (US\$m)	230	242	-5%	359	373	-4%	459	473	-3%
EBIT (US\$m)	193	205	-6%	322	336	-4%	422	436	-3%
NPAT (US\$m)	147	157	-6%	217	227	-4%	288	298	-3%

Recommendation

We upgrade our recommendation from Sell to Hold and leave our price target unchanged at \$1.05. The company has probably seen peak margin pressure in 2Q21 and 2H21 should be an improvement.

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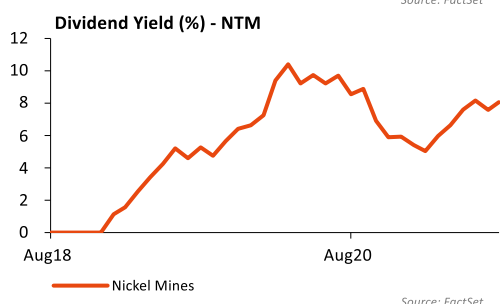
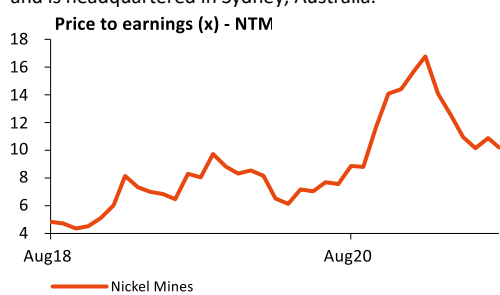
**Nickel Mines
Materials
Materials**

FactSet: NIC-AU / Bloomberg: NIC AU

Key Items	Data
Recommendation	HOLD
Risk	HIGH
Price (\$ps)	1.04
Target Price (\$ps)	1.05
52 Week Range (\$ps)	0.64 - 1.63
Shares on Issue (m)	2,515
Market Cap (\$m)	2,616
Enterprise Value (\$m)	2,557
TSR (%)	7.6%

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	5.9	8.6	11.5
EPS (Underlying) (cps)	3.5	5.3	5.9	8.6	11.5
EPS (Underlying) Growth (%)	(42.3%)	49.3%	10.6%	47.3%	32.9%
PE (Underlying) (x)	13.0	16.1	12.9	8.8	6.6
EV / EBIT (x)	23.0	11.8	9.6	5.8	4.4
EV / EBITDA (x)	19.1	9.5	8.1	5.2	4.0
DPS (cps) (AUD)	0.0	4.3	6.6	9.6	13.8
Dividend Yield (%)	0.0%	3.5%	6.6%	9.3%	13.2%
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0.0%	56.7%	85.4%	81.2%	87.3%
Profit and Loss (USD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	236	523	599	856	1,117
Sales Growth (%)	263.5%	121.8%	14.4%	42.9%	30.4%
Other Operating Income	1	0	0	0	0
EBITDA	97	194	230	359	459
EBITDA Margin (%)	41.2%	37.1%	38.3%	41.9%	41.1%
Depreciation & Amortisation	(16)	(37)	(37)	(37)	(37)
EBIT	80.8	157.7	192.7	322.1	422.4
EBIT Margin (%)	34.2%	30.1%	32.2%	37.6%	37.8%
Net Interest	11	(3)	(2)	(5)	(5)
Pretax Profit	91	155	191	317	418
Minorities	35	43	44	69	88
NPAT Underlying	57	111	147	217	288
Significant Items	0	0	0	0	0
NPAT Reported	57	111	147	217	288
Cashflow (USD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	81	158	193	322	422
Payments to Suppliers	(170)	(359)	(370)	(497)	(657)
Receipts from Customers	213	518	599	856	1,117
Tax Paid	(5)	(9)	0	0	(32)
Net Interest	0	0	4	1	1
Depreciation & Amortisation	0	0	0	0	0
Other	0	0	(46)	(83)	(80)
Operating Cashflow	38	150	187	277	348
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)	(151)	(176)
Change in Debt	(30)	(25)	100	(50)	(50)
Other	17	(43)	(49)	(74)	(93)
Financing Cashflow	(13)	334	(49)	(275)	(319)
Exchange Rate Effect	(0)	2	0	0	0
Net Change in Cash	1	302	(325)	(1)	26
Balance Sheet (USD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	50	351	26	25	51
Accounts Receivable	97	118	115	164	214
Inventory	56	61	115	164	214
Other Current Assets	1	8	8	8	8
PPE	629	601	709	676	642
Total Assets	897	1,235	1,387	1,450	1,542
Accounts Payable	52	40	45	61	81
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	91	101
Total Liabilities	175	148	254	251	232
Total Shareholder Equity	722	1,086	1,133	1,199	1,311
Ratios	FY19A	FY20A	FY21E	FY22E	FY23E
ROE (%)	15.3%	16.2%	15.3%	21.3%	26.0%
Gearing (%)	3.4%	(48.4%)	10.7%	6.2%	(0.5%)
Net Debt / EBITDA (x)	0.2	(1.6)	0.5	0.2	(0.0)

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, 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

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

Risk Rating

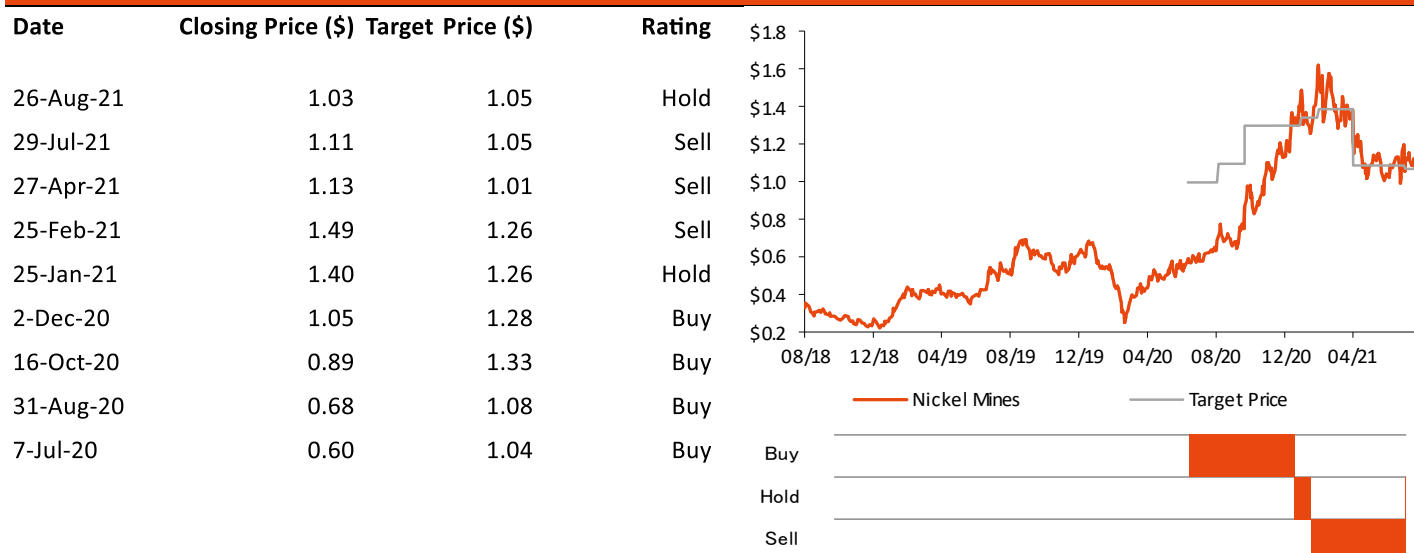
High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

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	73	81%
Hold	16	18%
Sell	1	1%

History of Investment Rating and Target Price - Nickel Mines



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