

**Analyst**

David Coates 612 8224 2887

**Authorisation**

Stuart Howe 613 9235 1856

# Nickel Mines Limited (NIC)

## Margins maintained, Angel kicks off

### Recommendation

**Buy** (unchanged)

**Price**

**\$1.45**

**Target (12 months)**

**\$1.89** (previously \$1.87)

### GICS Sector

Materials

### Expected Return

|                       |              |
|-----------------------|--------------|
| Capital growth        | <b>30.3%</b> |
| Dividend yield        | <b>2.8%</b>  |
| Total expected return | <b>33.1%</b> |

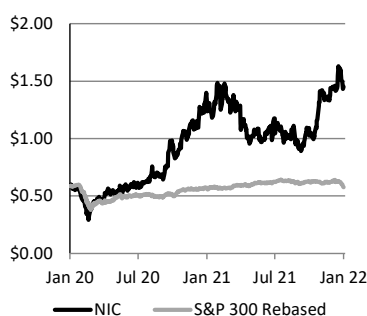
### Company Data & Ratios

|                        |                       |
|------------------------|-----------------------|
| Enterprise value       | <b>\$3,911m</b>       |
| Market cap             | <b>\$3,647m</b>       |
| Issued capital         | <b>2,515m</b>         |
| Free float             | <b>76%</b>            |
| Avg. daily val. (52wk) | <b>\$14.5m</b>        |
| 12 month price range   | <b>\$0.885-\$1.65</b> |

### Price Performance

|                | (1m) | (3m) | (12m) |
|----------------|------|------|-------|
| Price (A\$)    | 1.44 | 1.06 | 1.30  |
| Absolute (%)   | 0.7  | 37.4 | 12.0  |
| Rel market (%) | 8.6  | 45.3 | 11.3  |

### Absolute Price



SOURCE: IRESS

### December 2021 quarterly report

NIC has reported 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, up 19% qoq driven primarily by higher thermal and metallurgical coal prices. NIC produced 10,087t Ni in Nickel Pig Iron (NPI), for 8,070t attributable (vs BPe 10,193t Ni in NPI, 8,154t attributable). Cash costs were US\$12,346/t (vs BPe US\$9,950). The Hengjaya laterite nickel ore mine lifted production 46% qoq to a record 847kt. NIC reported EBITDA of US\$68.8m (100%-basis, unaudited) for the quarter from its RKEF and laterite ore mining operations and looks to have met our CY21 forecasts of ~US\$250m. Cash on hand increased from US\$120.8m to US\$137.9m. Debt at end December totalled US\$325m.

### Margins up vs 1HCY21, Angel starts production

Operating costs have continued to rise at the Hengjaya and Ranger projects, lifting by 19% qoq and by ~39% compared with average for 1HCY21 (~US\$8,900/t). Despite the higher costs, NIC has expanded its EBITDA margins compared with 1HCY21. NIC reported EBITDA margins of US\$6,028/t Ni in NPI in the December quarter, 20% above its average EBITDA margin for 1HCY21 of ~US\$5,020/t Ni in NPI. While we had been looking for further margin expansion, NIC has demonstrated its ability to maintain strong margins through the cycle due to its position at the bottom of the cost curve. The Angel Nickel Project (ANI, NIC 80%) also commenced production post quarter-end and approximately one quarter ahead of schedule. This milestone again reinforces a strong track record of project operation and delivery.

### Investment thesis – Buy, TP\$1.89/sh (from \$1.87/sh)

Our CY21 EBITDA and earnings forecasts are effectively unchanged. In CY22, the accelerated ramp-up at ANI offsets higher operating costs, lifting our forecast EBITDA and earnings by 8% and 9% respectively. We continue to forecast aggressive earnings growth of 95% for CY22, for which NIC is trading on a P/E multiple of 9.1x, which we view as cheap in that context. Our NPV-based valuation lifts 1% to \$1.89/sh. Buy.

### Earnings Forecast

| Year ending 31 December              | 2020a | 2021e | 2022e | 2023e |
|--------------------------------------|-------|-------|-------|-------|
| Sales (US\$m)                        | 523   | 644   | 1,149 | 1,681 |
| EBITDA (US\$m)                       | 194   | 250   | 469   | 844   |
| Attributable NPAT (reported) (US\$m) | 111   | 155   | 293   | 533   |
| Attributable NPAT (reported) (A\$m)  | 160   | 206   | 401   | 731   |
| EPS (adjusted) (Acps)                | 8.2   | 8.2   | 16.0  | 29.0  |
| EPS growth (%)                       | 62%   | 0%    | 95%   | 82%   |
| PER (x) 1                            | 17.6  | 17.7  | 9.1   | 5.0   |
| FCF Yield (%) 1                      | -2%   | -9%   | 1%    | 28%   |
| EV/EBITDA (x) 1                      | 14.2  | 11.1  | 5.9   | 3.3   |
| Dividend (Acps)                      | 3.0   | 4.0   | 7.0   | 11.0  |
| Yield (%)                            | 2.1%  | 2.8%  | 4.8%  | 7.6%  |
| Franking (%)                         | 0%    | 0%    | 0%    | 0%    |
| ROE (%) 1                            | 27%   | 20%   | 34%   | 51%   |

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Margins maintained, Angel kicks off

## December 2021 quarterly report

NIC has released its December 2021 quarter report, announcing production and costs from its 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 December quarter, NIC produced 78,772t of NPI grading 12.8% Ni for 10,087t contained Ni, with 8,070t 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\$12,346/t (vs BPe US\$9,950) and up 19% qoq. Ni in NPI production was effectively unchanged qoq with higher NPI production offset by lower Ni grades, a deliberate commercial strategy to maximise payabilities. We calculate these increased from 87.3% to 93.5% qoq as a proportion of the average LME nickel cash price.

Laterite nickel ore production from the Hengjaya Mine (NIC 80%) of 847kt was a record and jumped 46% qoq from 579kt, smashing its expanded production rate target of +150kt per month. This performance was enabled by increased barging capacity, multiple new production sources and favourable weather conditions. Ore sales lagged, at 634.5kt, but were still up 12% qoq, driving increased cash flows. The mine also shipped its first limonite ore to the Huayue Nickel Cobalt project, a new High-Pressure-Acid-Leach production facility that is currently in its commissioning phase at the IMIP. NIC expects to report its first commercial sales of limonite in the March 2022 quarter, at a rate of ~1.2Mtpa.

EBITDA of US\$60.8m from NPI production was reported for the December 2021 quarter (100%-basis, vs September 2021 quarter US\$62.6m) and is consistent with our calculations. Together with US\$8.0m EBITDA reported for the Hengjaya Mine (vs September 2021 quarter US\$5.8m), NIC looks to have met our expectations for CY21 EBITDA of ~US\$250m (100%-basis).

Cash on hand increased from US\$120.8m to US\$137.9m. During the quarter NIC paid a deposit of US\$30m upon the signing of a binding agreement to acquire a 70% interest in the Oracle Nickel RKEF project (ONI), currently under construction at IMIP. Debt at end December totalled US\$325m in Senior Unsecured Notes.

Key production metrics are summarised below:

| Table 1 - NIC quarterly production summary |                  |                  |                  |                  |                  |                   |                   |                      |
|--|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|----------------------|
|  | Dec-20<br>Actual | Mar-21<br>Actual | Jun-21<br>Actual | Sep-21<br>Actual | Dec-21<br>Actual | Dec-21<br>BP est. | Variance<br>qoq % | Variance<br>vs BPe % |
| <b>Hengjaya Mine</b>                       |                  |                  |                  |                  |                  |                   |                   |                      |
| Ore sales (t)                              | 456,758          | 424,410          | 542,384          | 568,692          | 634,486          | 500,000           | 12%               | 27%                  |
| grade (% Ni)                               | 1.81%            | 1.77%            | 1.78%            | 1.74%            | 1.75%            | 1.80%             | 0.6%              | -2.8%                |
| Contained nickel (t Ni)                    | 8,267            | 7,512            | 9,654            | 9,895            | 11,104           | 9,000             | 12%               | 23%                  |
| Mine OPEX (US\$/t)                         | \$25.30          | \$22.78          | \$23.48          | \$24.61          | \$24.98          | \$23.97           | 2%                | 4%                   |
| Avg price received (US\$/t)                | \$32.58          | \$35.40          | \$36.09          | \$36.45          | \$37.55          | \$39.45           | 3%                | -5%                  |
| <b>RKEF NPI production</b>                 |                  |                  |                  |                  |                  |                   |                   |                      |
| NPI production (t)                         | 77,067           | 71,939           | 74,487           | 73,154           | 78,772           | 75,501            | 8%                | 4%                   |
| NPI grade (% Ni)                           | 15.0%            | 14.0%            | 13.6%            | 13.8%            | 12.8%            | 13.5%             | -7%               | -5%                  |
| Contained nickel (t)                       | 11,527           | 10,068           | 10,143           | 10,113           | 10,087           | 10,193            | 0%                | -1%                  |
| Contained nickel (t, attributable)         | 9,222            | 8,054            | 8,114            | 8,091            | 8,070            | 8,154             | 0%                | -1%                  |
| <b>Costs</b>                               |                  |                  |                  |                  |                  |                   |                   |                      |
| Cash costs (US\$/t Ni)                     | \$7,526          | \$8,683          | \$9,107          | \$10,377         | \$12,346         | \$9,950           | 19%               | 24%                  |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Other key takeaways from the result include:

- Operating costs have continued to rise (~19% qoq) at the Hengjaya and Ranger projects, primarily due to rising electricity costs and met coal prices. This equates to an increase of ~39% compared with the average cash costs of 1HCY21 (~US\$8,900/t). Despite the higher costs, NIC has expanded its EBITDA margins compared with 1HCY21. NIC maintained EBITDA margins of US\$6,028/t Ni in NPI in the December quarter, 20% above its average EBITDA margin for 1HCY21 of ~US\$5,020/t Ni in NPI;
- During the quarter NIC agreed to purchase a 70% interest in the Oracle Nickel Project (ONI), comprising four next-generation RKEF lines currently under construction within the IMIP with an annual nameplate production capacity of 36,000 tonnes of nickel metal (in NPI). Total consideration is US\$525m, towards which a US\$30m deposit was paid;
- NIC also signed a conditional share purchase agreement (CSPA) to acquire 100% of the Tablasufa Nickel Project located in West Papua Province, Indonesia, for US\$8.5m. It represents an opportunistic acquisition of a potentially very large laterite nickel ore deposit;
- The Angel Nickel Project (ANI), within the Indonesia Weda Bay Industrial Park (IWIP) achieved first production post-quarter-end. It has now entered its commissioning phase and the remaining three RKEF lines are anticipated to have commenced operations by end April CY22. First commercial sales are expected to be recorded in the June quarter of 2022. This timing is around one quarter ahead of our prior forecasts and well ahead of the original contractual delivery date of October 2022. The completion of the power station (targeted for September CY22) remains the critical path for ramp-up to full production. NIC has guided the RKEF lines will be restricted to 60% of nameplate until then;
- NIC has announced its final dividend for CY21 of A2cps, for full year dividend distributions of A4cps (unfranked). This is in-line with our forecast of A4cps (unfranked), up 33% from A3cps for CY20; and
- During the quarter, NIC signed a binding Memorandum of Agreement with PT Iriana Mutiara Mining for the staged acquisition of a 100% interest in the Siduarsi Nickel-Cobalt project in Papua province, Indonesia.

## Changes to our forecasts

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

- Increased our operating cost assumptions for the Hengjaya and Ranger Nickel Projects to reflect the latest input-cost driven increases;
- Increased our production forecast for the Hengjaya laterite nickel mine, following the successful expansion and sales increase;
- Brought forward our forecast first commercial production from the ANI by one quarter, lifting CY23 production by 6%;
- Updated for our latest commodity price and exchange rate forecasts, including a minor increase to our forecast nickel price, largely offset by a lower assumed NPI payability; and
- Rolled our model forward and updated for the latest capital structure.

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

Table 2 - Changes to our CY forecasts

| Year end 31 December                 | Previous  |           |           | New       |           |           | Change |        |        |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|--------|--------|--------|
|                                      | Dec-21    | Dec-22    | Dec-23    | Dec-21    | Dec-22    | Dec-23    | Dec-21 | Dec-22 | Dec-23 |
| <b>Prices &amp; currency</b>         |           |           |           |           |           |           |        |        |        |
| Nickel price (US\$/t)                | 18,323    | 18,519    | 18,629    | 18,460    | 19,456    | 18,629    | 1%     | 5%     | 0%     |
| US\$/A\$                             | 0.75      | 0.73      | 0.73      | 0.75      | 0.73      | 0.73      | 0%     | 0%     | 0%     |
| <b>Production &amp; costs</b>        |           |           |           |           |           |           |        |        |        |
| Ore mined (t)                        | 2,035,486 | 2,000,000 | 2,000,000 | 2,169,972 | 2,400,000 | 2,400,000 | 7%     | 20%    | 20%    |
| Nickel in ore (t)                    | 36,062    | 36,000    | 36,000    | 38,165    | 43,200    | 43,200    | 6%     | 20%    | 20%    |
| RKEF NPI production (t)              | 295,081   | 487,004   | 789,615   | 298,352   | 517,008   | 789,615   | 1%     | 6%     | 0%     |
| Contained nickel (t)                 | 40,516    | 62,971    | 100,846   | 40,411    | 66,771    | 100,846   | 0%     | 6%     | 0%     |
| Contained nickel (t, attributable)   | 32,413    | 50,376    | 78,457    | 32,329    | 53,417    | 78,457    | 0%     | 6%     | 0%     |
| Cash costs (US\$/t Ni)               | 9,521     | 9,825     | 8,674     | 10,106    | 10,700    | 8,674     | 6%     | 9%     | 0%     |
| <b>Earnings &amp; valuation</b>      |           |           |           |           |           |           |        |        |        |
| Revenue (consolidated, US\$m)        | 624       | 1,028     | 1,681     | 644       | 1,149     | 1,681     | 3%     | 12%    | 0%     |
| EBITDA (consolidated, US\$m)         | 253       | 435       | 831       | 250       | 469       | 844       | -1%    | 8%     | 2%     |
| EBITDA (attributable, US\$m)         | 202       | 347       | 647       | 199       | 374       | 657       | -1%    | 8%     | 2%     |
| NPAT (reported, attributable, US\$m) | 157       | 270       | 524       | 155       | 293       | 533       | -1%    | 9%     | 2%     |
| EPS (reported) (Acps)                | 8.3       | 14.7      | 28.6      | 8.2       | 16.0      | 29.0      | -1%    | 9%     | 2%     |
| PER (x)                              | 17.6      | 9.9       | 5.1       | 17.7      | 9.1       | 5.0       | 0.1    | (0.8)  | (0.1)  |
| EPS growth (%)                       | 0%        | 78%       | 94%       | 0%        | 95%       | 82%       | -1%    | 17%    | -12%   |
| DPS (Acps)                           | 4.0       | 6.0       | 11.0      | 4.0       | 7.0       | 11.0      | 0%     | 17%    | 0%     |
| Yield                                | 2.8%      | 4.1%      | 7.6%      | 2.8%      | 4.8%      | 7.6%      | 0%     | 1%     | 0%     |
| NPV (A\$/sh)                         | 1.58      | 1.87      | 2.39      | 1.61      | 1.89      | 2.44      | 2%     | 1%     | 2%     |
| <b>Price Target (A\$/sh)</b>         |           | 1.87      |           |           | 1.89      |           |        | 1%     |        |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The higher costs at the Hengjaya and Ranger RKEF lines are offset by higher NPI prices and price realisations for CY21, leaving our EBITDA and earnings forecasts effectively unchanged. In CY22, the accelerated ramp-up offsets the higher costs and we lift our forecast EBITDA and earnings by 8% and 9% respectively. We continue to forecast aggressive earnings growth of 95% for CY22, for which NIC is trading on a P/E multiple of 9.1x, which we view as cheap in that context. Our NPV-based valuation lifts 1% to \$1.89/sh.

## Upcoming catalysts

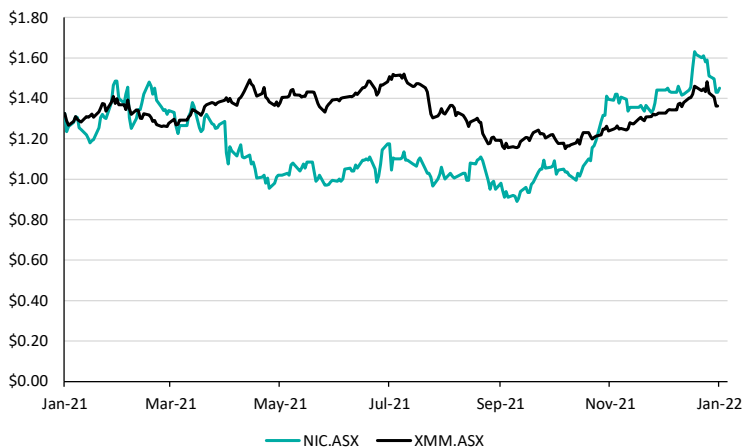
Upcoming catalysts for NIC include:

- The release of NIC's CY21 full year financial results, expected in late February 2022;
- Updates on Nickel Pig Iron (NPI) pricing and the effective Ni payability, which we believe the market will continue to consider as a measure of NIC's nickel price exposure;
- Further updates on the commissioning progress of ANI, in which NIC holds an 80% interest. We anticipate full production in the December quarter 2022;
- Further updates on the construction of ONI, comprising 4 next-generation RKEF lines being developed within the IMIP. Commissioning is to commence in 1QCY23;
- Progress updates for the Hengjaya Mine, where a major production expansion is complete. We will be looking for costs to track lower, towards ~US\$20/t and for the first commercial limonite nickel ore sales in 1QCY22;
- The release of the March 2022 quarterly production and cost report, expected in late April 2022;
- Exploration and development updates on the Siduarsi Nickel-Cobalt project in Papua province, Indonesia, in which NIC has recently acquired a 100% interest; 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') 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.

NIC has also executed binding agreements to acquire an 80% interest in the Angel Nickel Project comprising four new generation RKEF NPI production lines currently under construction within the Indonesia Weda Bay Industrial Park ('IWIP') on Halmahera Island in Indonesia and a 70% interest in the Oracle Nickel Project, comprising four new generation RKEF NPI production lines currently under construction within the IMIP.

NIC also holds an 80% interest in Hengjaya Mine ('HM'), a high-grade, long-life nickel laterite deposit, in close proximity to the IMIP. The HM produces Direct Shipping Ore (DSO), the bulk of which is sold into the IMIP facility.

## Investment thesis – Buy, TP\$1.89/sh (from \$1.87/sh)

Our CY21 EBITDA and earnings forecasts are effectively unchanged. In CY22, the accelerated ramp-up at ANI offsets higher operating costs, lifting our forecast EBITDA and earnings by 8% and 9% respectively. We continue to forecast aggressive earnings growth of 95% for CY22, for which NIC is trading on a P/E multiple of 9.1x, which we view as cheap in that context. Our NPV-based valuation lifts 1% to \$1.89/sh. Buy.

## Valuation: \$1.89/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 2028) in the Hengjaya laterite nickel ore mine.

We also include a risk-adjusted, NPV-based valuation for NIC's 80% interest in the Angel Nickel Industry (ANI) project, its 70% interest in the Oracle Nickel Project (ONI) and 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 \$1.89/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 Limited

as at 27 January 2022

Recommendation

Buy

Price

\$1.45

Target (12 months)

\$1.89

Table 3 - Financial summary

| PROFIT AND LOSS                         |              |             |              |              |              |              | FINANCIAL RATIOS                            |                |             |                |                |                |                  |
|---|--------------|-------------|--------------|--------------|--------------|--------------|---|----------------|-------------|----------------|----------------|----------------|------------------|
| Year ending 31 Dec. (from 2020)         | Unit         | 2019a*      | 2020a        | 2021e        | 2022e        | 2023e        | Year ending 31 Dec. (from 2020)             | Unit           | 2019a*      | 2020a          | 2021e          | 2022e          | 2023e            |
| Revenue                                 | US\$m        | 236.1       | 523.5        | 644.4        | 1,149.3      | 1,681.4      | <b>VALUATION</b>                            |                |             |                |                |                |                  |
| Expense                                 | US\$m        | (138.9)     | (329.0)      | (394.2)      | (680.8)      | (837.1)      | Attributable NPAT                           | US\$m          | 56.5        | 110.6          | 154.7          | 293.0          | 533.3            |
| <b>EBITDA</b>                           | <b>US\$m</b> | <b>97.2</b> | <b>194.5</b> | <b>250.2</b> | <b>468.5</b> | <b>844.3</b> | Attributable NPAT                           | A\$m           | 82.5        | 160.1          | 205.9          | 401.3          | 730.5            |
| Depreciation                            | US\$m        | (16.4)      | (36.8)       | (36.1)       | (67.8)       | (98.2)       | Reported EPS                                | A\$/sh         | 5.1         | 8.2            | 8.2            | 16.0           | 29.0             |
| EBIT                                    | US\$m        | 80.8        | 157.7        | 214.0        | 400.7        | 746.2        | Adjusted EPS                                | A\$/sh         | 4.4         | 8.2            | 8.2            | 16.0           | 29.0             |
| Net interest expense                    | US\$m        | (2.1)       | (4.7)        | (10.8)       | (20.4)       | (15.3)       | EPS growth                                  | %              | 46%         | 62%            | 0%             | 95%            | 82%              |
| Unrealised gains (Impairments)          | US\$m        | 7.4         | -            | -            | -            | -            | PER <sup>1</sup>                            | x              | 14.3x       | 17.6x          | 17.7x          | 9.1x           | 5.0x             |
| Other                                   | US\$m        | 5.4         | 1.6          | -            | -            | -            | DPS   | A\$/sh         | -           | 3.0            | 4.0            | 7.0            | 11.0             |
| <b>PBT</b>                              | <b>US\$m</b> | <b>91.5</b> | <b>154.6</b> | <b>203.2</b> | <b>380.3</b> | <b>730.9</b> | Franking                                    | %              | 0%          | 0%             | 0%             | 0%             | 0%               |
| Tax expense                             | US\$m        | (0.2)       | (0.9)        | (5.9)        | (7.7)        | (45.4)       | Yield                                       | %              | 0.0%        | 2.1%           | 2.8%           | 4.8%           | 7.6%             |
| Consolidated profit (loss) for the year | US\$m        | 91.3        | 153.7        | 197.3        | 372.5        | 685.5        | FCF/share <sup>1</sup>                      | A\$/sh         | 2.6         | (2.6)          | (12.5)         | 1.1            | 40.0             |
| Non-Controlling Interest                | US\$m        | 34.8        | 43.1         | 42.6         | 79.6         | 152.2        | FCF yield <sup>1</sup>                      | %              | 2%          | -2%            | -9%            | 1%             | 28%              |
| <b>Attributable NPAT (reported)</b>     | <b>US\$m</b> | <b>56.5</b> | <b>110.6</b> | <b>154.7</b> | <b>293.0</b> | <b>533.3</b> | P/FCFPS <sup>1</sup>                        | x              | 56.1x       | -56.7x         | -11.6x         | 132.6x         | 3.6x             |
| NPAT (underlying)                       | US\$m        | 49.1        | 110.6        | 154.7        | 293.0        | 533.3        | EV/EBITDA <sup>1</sup>                      | x              | 28.5x       | 14.2x          | 11.1x          | 5.9x           | 3.3x             |
|   |              |             |              |              |              |              | EBITDA margin                               | %              | 41%         | 37%            | 39%            | 41%            | 50%              |
|   |              |             |              |              |              |              | EBIT margin                                 | %              | 34%         | 30%            | 33%            | 35%            | 44%              |
|   |              |             |              |              |              |              | Return on assets <sup>1</sup>               | %              | 26%         | 17%            | 14%            | 21%            | 32%              |
|   |              |             |              |              |              |              | Return on equity <sup>1</sup>               | %              | 49%         | 27%            | 20%            | 34%            | 51%              |
|   |              |             |              |              |              |              | <b>LIQUIDITY &amp; LEVERAGE</b>             |                |             |                |                |                |                  |
|   |              |             |              |              |              |              | Net debt (cash)                             | \$m            | 15          | (306)          | 57             | 202            | (268)            |
|   |              |             |              |              |              |              | ND / E                                      | %              | 4%          | -33%           | 6%             | 17%            | -18%             |
|   |              |             |              |              |              |              | ND / (ND + E)                               | %              | 3%          | -48%           | 5%             | 15%            | -22%             |
|   |              |             |              |              |              |              | EBITDA / Interest                           | x              | 46.1x       | 40.9x          | 23.1x          | 22.9x          | 55.2x            |
|   |              |             |              |              |              |              | <b>ATTRIBUTABLE DATA - NICKEL MINES LTD</b> |                |             |                |                |                |                  |
|   |              |             |              |              |              |              | Year ending 31 Dec. (from 2020)             | Unit           | 2019a*      | 2020a          | 2021e          | 2022e          | 2023e            |
|   |              |             |              |              |              |              | Revenues                                    | US\$m          | 95.7        | 391.3          | 578.8          | 1,001.1        | 1,390.6          |
|   |              |             |              |              |              |              | EBITDA                                      | US\$m          | 35.6        | 139.7          | 199.2          | 373.8          | 657.0            |
|   |              |             |              |              |              |              | NPAT  | US\$m          | 56.5        | 110.6          | 154.7          | 293.0          | 533.3            |
|   |              |             |              |              |              |              | Net distributable cash flow                 | US\$m          | 1.0         | 269.3          | (63.7)         | (130.2)        | 288.2            |
|   |              |             |              |              |              |              | EV/EBITDA                                   | x              | 75.1        | 19.3           | 14.8           | 7.6            | 4.3              |
|   |              |             |              |              |              |              | PER   | x              | 28.7        | 17.6           | 17.7           | 9.1            | 5.0              |
|   |              |             |              |              |              |              | P/FCF                                       | x              | nm          | nm             | nm             | nm             | 9.2              |
|   |              |             |              |              |              |              | <b>ORE RESERVE AND MINERAL RESOURCE</b>     |                |             |                |                |                |                  |
|   |              |             |              |              |              |              | Hengjaya Nickel Mine (HM)                   |                |             |                | Mdmt           | % Ni           | t Ni             |
|   |              |             |              |              |              |              | Mineral Resources                           |                |             |                |                |                |                  |
|   |              |             |              |              |              |              | Measured                                    |                |             |                | 20,000         | 1.30%          | 260,000          |
|   |              |             |              |              |              |              | Indicated                                   |                |             |                | 109,000        | 1.30%          | 1,417,000        |
|   |              |             |              |              |              |              | Inferred                                    |                |             |                | 56,000         | 1.30%          | 728,000          |
|   |              |             |              |              |              |              | <b>Total</b>                                |                |             |                | <b>185,000</b> | <b>1.30%</b>   | <b>2,405,000</b> |
|   |              |             |              |              |              |              | <b>ASSUMPTIONS - Prices</b>                 |                |             |                |                |                |                  |
|   |              |             |              |              |              |              | Year ending 31 Dec. (from 2020) avg         | Unit           | 2019a*      | 2020a          | 2021e          | 2022e          | 2023e            |
|   |              |             |              |              |              |              | Nickel                                      | US\$/lb        | \$7.02      | \$6.25         | \$8.37         | \$8.83         | \$8.45           |
|   |              |             |              |              |              |              | Nickel                                      | US\$/t         | \$15,483    | \$13,775       | \$18,460       | \$19,456       | \$18,629         |
|   |              |             |              |              |              |              | <b>Currency</b>                             |                |             |                |                |                |                  |
|   |              |             |              |              |              |              | AUD:USD                                     |                | 0.68        | 0.69           | 0.75           | 0.73           | 0.73             |
|   |              |             |              |              |              |              | <b>ASSUMPTIONS - Production &amp; costs</b> |                |             |                |                |                |                  |
|   |              |             |              |              |              |              | Year ending 31 Dec. (from 2020)             | Unit           | 2019a*      | 2020a          | 2021e          | 2022e          | 2023e            |
|   |              |             |              |              |              |              | Hengjaya Mine                               |                |             |                |                |                |                  |
|   |              |             |              |              |              |              | Ore mined                                   | wmt            | 428,382     | 795,650        | 2,169,972      | 2,400,000      | 2,400,000        |
|   |              |             |              |              |              |              | Ore grade                                   | % Ni           | 1.9%        | 1.8%           | 1.8%           | 1.8%           | 1.8%             |
|   |              |             |              |              |              |              | Nickel in ore                               | t Ni           | 8,178       | 14,479         | 38,165         | 43,200         | 43,200           |
|   |              |             |              |              |              |              | Nickel in ore (attributable)                | t Ni           | 6,542       | 11,583         | 30,532         | 34,560         | 34,560           |
|   |              |             |              |              |              |              | <b>RKEF (IMIP)</b>                          |                |             |                |                |                |                  |
|   |              |             |              |              |              |              | NPI production                              | t              | 152,408     | 295,897        | 298,352        | 517,008        | 789,615          |
|   |              |             |              |              |              |              | Contained nickel                            | t Ni           | 20,988      | 43,622         | 40,411         | 66,771         | 100,846          |
|   |              |             |              |              |              |              | Contained nickel (attributable)             | t Ni           | 11,742      | 30,619         | 32,329         | 53,417         | 78,457           |
|   |              |             |              |              |              |              | <b>Costs</b>                                |                |             |                |                |                |                  |
|   |              |             |              |              |              |              | Cash costs                                  | US\$/t Ni      | \$7,689     | \$7,330        | \$10,106       | \$10,700       | \$8,674          |
|   |              |             |              |              |              |              | All-in-Costs (AIC)                          | US\$/t Ni      | \$7,804     | \$7,414        | \$10,225       | \$10,795       | \$8,781          |
|   |              |             |              |              |              |              | <b>VALUATION</b>                            |                |             |                |                |                |                  |
|   |              |             |              |              |              |              | Ordinary shares (m)                         |                |             |                |                |                | 2,515.0          |
|   |              |             |              |              |              |              | Options in the money (m)                    |                |             |                |                |                | -                |
|   |              |             |              |              |              |              | <b>Total shares diluted (m)</b>             |                |             |                |                |                | <b>2,515.0</b>   |
|   |              |             |              |              |              |              | 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)                           | 2,117.7        | 0.84        | 2,297.6        | 0.91           | 2,360.3        | 0.94             |
|   |              |             |              |              |              |              | IWIP RKEF (NPV12)                           | 1,390.3        | 0.55        | 1,598.1        | 0.64           | 2,435.2        | 0.97             |
|   |              |             |              |              |              |              | ONI RKEF (NPV12)                            | 651.9          | 0.26        | 765.1          | 0.30           | 1,361.5        | 0.54             |
|   |              |             |              |              |              |              | Hengjaya Mine (NPV12)                       | 66.2           | 0.03        | 74.6           | 0.03           | 102.7          | 0.04             |
|   |              |             |              |              |              |              | Other exploration                           | 120.0          | 0.05        | 120.0          | 0.05           | 120.0          | 0.05             |
|   |              |             |              |              |              |              | Corporate overheads                         | (44.2)         | (0.02)      | (44.6)         | (0.02)         | (45.1)         | (0.02)           |
|   |              |             |              |              |              |              | Subtotal (EV)                               | 4,301.8        | 1.71        | 4,810.7        | 1.91           | 6,334.6        | 2.52             |
|   |              |             |              |              |              |              | Net cash (debt)                             | (264.6)        | (0.11)      | (57.1)         | (0.02)         | (201.8)        | (0.08)           |
|   |              |             |              |              |              |              | <b>Total (undiluted)</b>                    | <b>4,037.2</b> | <b>1.61</b> | <b>4,753.6</b> | <b>1.89</b>    | <b>6,132.8</b> | <b>2.44</b>      |
|   |              |             |              |              |              |              | Dilutive effect of options                  | -              | -           | -              | -              | -              | -                |
|   |              |             |              |              |              |              | Add cash from options                       | -              | -           | -              | -              | -              | -                |
|   |              |             |              |              |              |              | <b>Total (diluted)</b>                      | <b>4,037.2</b> | <b>1.61</b> | <b>4,753.6</b> | <b>1.89</b>    | <b>6,132.8</b> | <b>2.44</b>      |
|   |              |             |              |              |              |              | <b>MAJOR SHAREHOLDERS</b>                   |                |             |                |                |                |                  |
|   |              |             |              |              |              |              | Shareholder                                 |                | %           | m              |                |                |                  |
|   |              |             |              |              |              |              | Shanghai Decent (SDI)                       |                | 18.7%       | 469.7          |                |                |                  |
|   |              |             |              |              |              |              | Tanito Group (PT Karunia)                   |                | 15.0%       | 378.4          |                |                |                  |
|   |              |             |              |              |              |              | BlackRock Investment Management             |                | 7.8%        | 195.5          |                |                |                  |
|   |              |             |              |              |              |              | Directors and Management                    |                | 5.5%        | 137.9          |                |                |                  |
|   |              |             |              |              |              |              | Shanghai Wanlu                              |                | 4.8%        | 121.3          |                |                |                  |

SOURCE: BELL POTTER SECURITIES ESTIMATES

\*Transitional 6 month period to Dec-19. Change of Financial Year end from June to December  
<sup>1</sup> Metrics annualised for 6 month period to Dec-19



**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 |
|-------------------|------------------------------|---------------|--------------------|
| Chris Savage      | Head of Research/Industrials | 612 8224 2835 | csavage            |
| <b>Analysts</b>   |                              |               |                    |
| TS Lim            | Banks                        | 612 8224 2810 | tslim              |
| John Hester       | Healthcare                   | 612 8224 2871 | jhester            |
| Anubhav Saxena    | Healthcare                   | 612 8224 2846 | asaxena            |
| Marcus Barnard    | Industrials                  | 618 9326 7673 | mbarnard           |
| Sam Brandwood     | Industrials                  | 612 8224 2850 | sbrandwood         |
| James Filius      | Industrials                  | 613 9235 1612 | jfilius            |
| Sam Haddad        | Industrials                  | 612 8224 2819 | shaddad            |
| Olivia Hagglund   | Industrials                  | 612 8224 2813 | ohagglund          |
| Hamish Murray     | Industrials                  | 613 9235 1813 | hmurray            |
| Jonathan Snape    | Industrials                  | 613 9235 1601 | jsnape             |
| David Coates      | Resources                    | 612 8224 2887 | dcoates            |
| Stuart Howe       | Resources                    | 613 9235 1856 | showe              |
| Brad Watson       | Resources                    | 618 9326 7672 | bwatson            |
| Regan Burrows     | Resources                    | 618 9326 7677 | rburrows           |
| Joseph House      | Resources                    | 613 9235 1624 | jhouse             |
| <b>Associates</b> |                              |               |                    |
| Michael Ardrey    | Associate Analyst            | 613 9256 8782 | mardrey            |
| Daniel Laing      | Associate Analyst            | 612 8224 2886 | dlaing             |

**Bell Potter Securities Limited**  
 ABN 25 006 390 772  
 Level 29, 101 Collins Street  
 Melbourne, Victoria, 3000  
 Telephone +61 3 9256 8700  
[www.bellpotter.com.au](http://www.bellpotter.com.au)

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

**The following may affect your legal rights. Important Disclaimer:**

This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of Bell Potter Securities Limited. In the USA and the UK this research is only for institutional investors. It is not for release, publication or distribution in whole or in part to any persons in the two specified countries. **In Hong Kong**, this research is being distributed by Bell Potter Securities (HK) Limited which is licensed and regulated by the Securities and Futures Commission, Hong Kong. **In the United States**, this research is issued and distributed by Bell Potter Securities (US) LLC which is a registered broker-dealer and member of FINRA. Any person receiving this report from Bell Potter Securities (US) LLC and wishing to transact in any security described herein should do so with Bell Potter Securities (US) LLC.

This is general investment advice only and does not constitute personal advice to any person. Because this document has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited investment adviser (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this document.

While this document is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in the document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. Nor does Bell Potter Securities Limited accept any responsibility for updating any advice, views opinions, or recommendations contained in this document or for correcting any error or omission which may become apparent after the document has been issued.

Except insofar as liability under any statute cannot be excluded. Bell Potter Securities Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

**Research Policies:**

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

<https://bellpotter.com.au/research-independence-policy/>

**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 Joint Lead Manager and Underwriter to the \$364m Entitlements Issue of December 2020 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.