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# Mincor Resources NL (MCR)

## Producer status confirmed

**Recommendation**
**Buy** (Hold)

**Price**
**\$1.66**
**Target (12 months)**
**\$2.00** (previously \$2.35)

**GICS Sector**
**Materials**
**Expected Return**

Capital growth	<b>20.5%</b>
Dividend yield	<b>0.0%</b>
Total expected return	<b>20.5%</b>

**Company Data & Ratios**

Enterprise value	<b>\$723m</b>
Market cap	<b>\$804m</b>
Issued capital	<b>484m</b>
Free float	<b>77%</b>
Avg. daily val. (52wk)	<b>\$3.3m</b>
12 month price range	<b>\$0.995 to \$2.84</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	2.50	2.04	1.00
Absolute (%)	-33.6	-18.6	66.0
Rel market (%)	-24.7	-7.8	77.7

**First sales and Peak Project Funding**

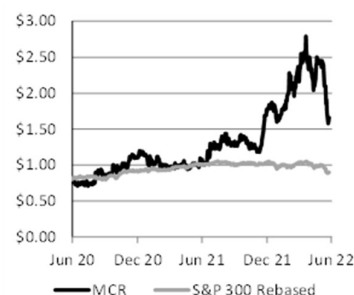
On 23 June 2022 MCR announced that it had received its first payment from nickel concentrate sales for FY22 of 1,003t (vs 962 BPe). Net proceeds (sales revenue less processing and freight charges) of A\$25m were received. MCR also announced Peak funding (growth capital and working capital) pre-sales was A\$98m, (previously forecast of A\$107m). Major capital works are now complete (excluding the new camp, A\$15m).

**FY23 production forecasts**

MCR is expected to begin providing periodic production and cost guidance (September 2022). In advance of guidance, we have updated our production scenario to reflect a more conservative ramp-up towards name-plate production in 4QFY23, resulting in reduced forecast FY23 production of 450kt, or ~ 75% of name-plate production (600ktpa). Our forecast of 600ktpa was based on our interpretation of the Definitive Feasibility Study (DFS) results. We will again review this assumption when guidance is announced.

**Investment thesis – Buy, TP\$2.00/sh (from Hold, \$2.35/sh)**

With this update we decrease our valuation by 15% to \$2.00/sh, after blending our forecast nickel price (\$1.82/sh) and spot nickel valuations (\$2.40/sh), 70:30 respectively. Our decreased target price is mainly due to the reduced spot nickel price. MCR is supported by the 'decarbonisation' thematic, with nickel an important component (with lithium) of high-energy-density NCM batteries. Amongst the remaining mid-tier Australian nickel sulphide miners, MCR is well positioned to benefit from demand for nickel, given near-term production, existing Resources and its highly prospective exploration portfolio. With this update and the commencement of operating cash flows, we remove our Speculative risk rating and upgrade to Buy (from Speculative Hold). EPS changes in this report include: FY22 -20%; FY23 -48%; and FY24 +19%, driven by the changes to our production ramp-up assumptions, and specifically our assumption of 75% of name-plate in FY23.

**Absolute Price**


SOURCE: IRESS

**Earnings Forecast**

Year end June 30	2021a	2022e	2023e	2024e
Sales (A\$m)	0	32	209	324
EBITDA (A\$m)	(14)	(5)	95	173
NPAT (reported) (A\$m)	(13)	(9)	75	112
NPAT (adjusted) (A\$m)	(14)	(10)	75	112
EPS (adjusted) (¢ps)	(3.3)	(2.1)	15.4	23.2
EPS growth (%)	(30)	(39)	(908)	51
PER (x)	(53.5)	(87.1)	10.8	7.1
FCF Yield (%)	-7.6	-7.9	3.1	15.5
EV/EBITDA (x)	(55.5)	(153.6)	7.6	4.2
Dividend (¢ps)	-	-	-	-
Yield (%)	-	-	-	-
Franking (%)	NA	NA	NA	NA
ROE (%)	(15)	(7)	37	36

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Producer status confirmed

## First sales: 1,003 Ni tonnes, A\$25.3m net-proceeds

On 23 June 2022 MCR announced that it had received first its nickel concentrates, reporting:

- Nickel in concentrate sales for FY22 of 1,003t.
- Net proceeds of A\$25m were received (sales revenue less processing and freight charges).

Concentrate sales were in line with our forecast of 962t, from production of 1,443t (we forecast payment to occur in the month following processing).

## Peak project funding

MCR also announced the successful, on-budget project development, including:

- Peak funding (growth capital and working capital) pre-sales was A\$98m, 8% less than the previously forecast figure of A\$107m.
- Major mining capital works are now predominantly complete (excluding the new accommodation camp, A\$15m).

MCR considers the result to be outstanding considering the successful completion of the two major underground projects occurred during the COVID-19 pandemic.

## The nickel market, and MCR

We have noted previously that MCR's share price is strongly correlated with the spot nickel price. While the nickel price remains relatively high, it has declined significantly since our last note (from US\$33,000/t to US\$25,000/t).

The figure below illustrates nickel price history and forecasts.

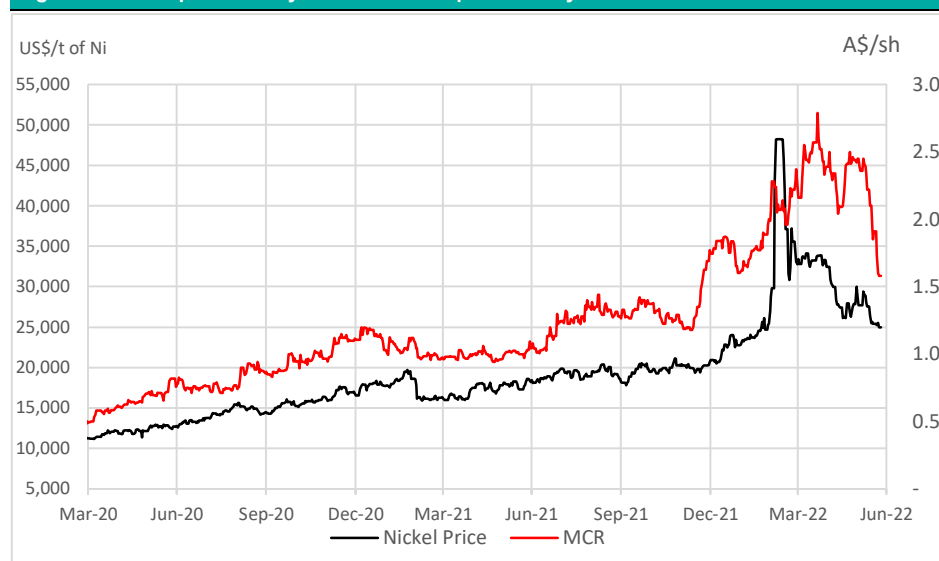
**Figure 1 - Nickel price history and forecasts**



SOURCE: IRESS, CONSENSUS ECONOMIC FORECAST AND BELL POTTER ESTIMATES

The figure below illustrates the relationship between the spot nickel price and MCR's share price. MCR's share price continues to be highly leveraged to the nickel price.

**Figure 2 - Nickel price history and MCR share price history**



SOURCE: IRESS.

## Changes to our forecasts

With this update we have made the following changes to our modelled assumptions:

- Updated our model for changes to our FY23 production forecast and ramp up assumptions. Previously we had forecast a production scenario interpreted from MCR's DFS (635kt at 2.79 % Ni containing 17,697t of Ni). Judgmentally, and in advance of guidance, we have updated our production scenario to reflect a more conservative ramp-up of production towards name-plate production in 4QFY23, resulting in reduced forecast FY23 production of 450kt at 2.77% Ni containing 12,168t of Ni. This is equivalent to ~75% of name-plate production (600ktpa). We will again review this assumption when guidance is announced.
- Updated our assumptions on the timing of delivery into nickel price hedges, now assuming all hedging obligations will be met in FY23.

The net impact of these changes are summarised in the forecast changes table below.

**Table 1 - Changes to our forecasts**

	Previous			New			Change		
Year ending June	2022e	2023e	2024e	2021e	2022e	2023e	2023e	2023e	2023e
<b>Prices &amp; currency</b>									
Ni (US\$/t)	24,014	23,699	19,841	24,014	23,699	19,841	0%	0%	0%
US\$/A\$	0.73	0.73	0.73	0.73	0.73	0.73	0%	0%	0%
<b>Equity production &amp; costs</b>									
Nickel produced (kt)	1.44	15.68	15.73	1.50	10.8	15.7	4%	-31%	0%
<b>Earnings</b>									
Revenue (\$m)	30	330	320	32	209	324	4%	-37%	1%
EBITDA (\$m)	(8)	173	174	(5)	95	173	-32%	-45%	-1%
NPAT (adjusted) (\$m)	(13)	143	95	(10)	75	112	-20%	-48%	19%
EPS (adjusted) (cps)	(3)	29	20	(2)	15	23	-20%	-48%	19%
PER (x)	(68)	6	8	(87)	11	7	29%	94%	-15%
DPS (reported) (cps)	-	-	-	-	-	-	-	-	-
Yield(%)	-	-	-	-	-	-	-	-	-
Free Cash Flow (\$m)	(66)	103	105	(63)	25	125	-4%	-76%	18%
Valuation (A\$/sh)		2.35			2.00			-15%	

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SOURCE: BELL POTTER SECURITIES ESTIMATES

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## Upcoming catalysts

Upcoming catalysts for MCR include:

- Transition to a producer / producer re-rating: in the first half of FY23, MCR is now transitioning from the development and commissioning phase to becoming a producer. With this MCR is expected to begin providing periodic production and cost guidance (expected September 2022).
- Updated Mineral Resource: MCR is targeting a Mineral Resource update, incorporating the Golden Mile, in 2H CY22 (expected July 2022).
- Mine ore production ramp-up: MCR is entering the mine ore production ramp-up phase of its mine development. News as to the rate of ramp-up progress of this phase of the development has the potential to affect MCR's share price.
- Exploration results: The release of exploration results from MCR's portfolio of exploration assets has the potential to provide positive catalysts to the share price. Periodic updates on progress in the 'Golden Mile' area are expected throughout CY22.
- Corporate activity: Corporate activity in relation to MCR, or other companies has the potential to affect MCR's share price.

# Mincor Resources NL (MCR)

## Company description

Having commenced production and received first sales revenue, MCR is working towards full production from its Kambalda Nickel Operations (KNO) in Western Australia. MCR is developing underground mines at Cassini and the Northern Operations. First ore from mining was delivered to BHP (MCR's offtake partner) in February 2022. BHP's Kambalda Nickel Concentrator (KNC) was commissioned in the Q4FY22, with MCR receiving first revenue from concentrate sales in June 2022, from production up to 31 May 2022.

Until December 2025, MCR's nickel in ore is to be sold through a binding 'ore tolling and concentrate' purchase agreement with BHP Nickel West. The agreement gives MCR the right to process up to 600 ktpa of nickel sulphide ore at the KNC (capacity up to 1,300 ktpa).

MCR is advancing several exploration projects within its tenements. The potential for resource extensions exists at a number of projects including: Cassini, Cassini North, The Golden Mile (between Long and Durkin) and Hartley, and from other locations within MCR's extensive tenement package.

## Investment thesis – Buy, TP\$2.00/sh (from V\$2.35/sh)

With this update we decrease our target price by 15% to \$2.00/sh. Using our forecast nickel prices, our model values MCR at \$1.82/sh (previously \$1.87/sh). Using spot nickel prices (US\$25,000/t, 23/06/2020) our model values MCR at \$2.40/sh. Applying a blend of our forecast and spot valuations (70:30 respectively) we value MCR at \$2.00/sh.

Spot prices for nickel are at high levels, relative to MCR's feasibility study assumptions, and long-term consensus economic forecasts. MCR is now a producer and has received first revenue following the production re-start at KNO and KNC.

MCR is supported by the 'decarbonisation & battery metals' thematic, with nickel an important component (along with lithium) of high-energy-density nickel-cobalt-manganese (NCM) batteries. Amongst the remaining mid-tier Australian nickel sulphide miners, MCR looks well positioned to continue to benefit from demand for nickel, given, near-term production, existing Resources (yet to be re-evaluated with higher nickel prices) and its highly prospective exploration portfolio, which is yielding results on multiple fronts.

With this update and the commencement of operating cash flows, we remove our Speculative risk rating and upgrade to Buy (from Speculative Hold) as our valuation corresponds to a premium of 20.5% to the last closing price. EPS changes in this report include: FY22 -20%; FY23 -48%; and FY24 +19%, driven by significant changes to our production ramp-up assumptions.

## Valuation methodology

Our valuation for MCR is based upon the 12-month forward NPV of our forecast free cash flows from the KNO, net of corporate administration costs and MCR's net cash position. Our forecasts are based on our indicative production schedule for KNO. Previously our forecasts were based on the results of the DFS published in March 2020. This is included in a sum-of-the-parts valuation for the company which also includes a notional estimate for the value of the exploration potential of the balance of the Kambalda tenements and exploration projects. Our valuation incorporates our current commodity price and exchange rate forecasts, and considers the sensitivity of MCR's modelled value to spot prices.

Table 2 - MCR sum-of-the-parts valuation summary

Ordinary shares (m)					484.3
Options in the money (m)					12.1
Diluted (m)					496.4
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	<u>Forecast Ni Price</u>		<u>Spot Ni Price (\$25k/t)</u>		
<b>Sum-of-the-parts</b>	<b>\$m</b>	<b>\$/sh</b>	<b>\$m</b>	<b>\$/sh</b>	
Kambalda Nickel Operations (unrisked NPV10)	496	1.00	785	1.62	
Mineral resources, exploration and investments	376	0.78	376	0.78	
Corporate overheads	-26	-0.06	-26	-0.06	
<b>Subtotal</b>	<b>846</b>	<b>1.75</b>	<b>1,135</b>	<b>2.34</b>	
Net Cash (debt)	56	0.12	53.5	0.11	
<b>Total (undiluted)</b>	<b>902</b>	<b>1.86</b>	<b>1,188</b>	<b>2.45</b>	
Add options in the money (m)	12.1	-	12.1		
Add cash	1	0.00	1	0.00	
<b>Total (diluted)</b>	<b>903</b>	<b>1.82</b>	<b>1,190</b>	<b>2.40</b>	

SOURCE: BELL POTTER SECURITIES ESTIMATES

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Resource sector risks

Risks include, but are not limited to:

- **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.
- **Occupational health and safety risks.** Mining companies are particularly exposed to OH&S risks due to the inherent hazards of the operating environment and the human resource intensity of the activities undertaken.
- **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.
- **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.
- **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.
- **Sovereign risks:** Mining companies' assets are subject to the sovereign risks of the jurisdiction within which they are operating.
- **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.

# Mincor Resources NL

as at 23 June 2022

Recommendation  
Price  
Target (12 months)

Buy  
\$1.66  
\$2.00

Table 3 - Financial summary

PROFIT AND LOSS							FINANCIAL RATIOS						
Year ending June	Unit	2020a	2021a	2022e	2023e	2024e	Year ending June	Unit	2020a	2021a	2022e	2023e	2024e
Revenue	\$m	21.4	0.1	31.6	208.9	323.6	VALUATION						
Expense	\$m	(37.7)	(13.7)	(37.0)	(114.3)	(151.0)	NPAT	\$m	(14.3)	(13.4)	(9.2)	74.6	112.5
EBITDA	\$m	(16.2)	(13.6)	(5.9)	94.6	172.6	Reported EPS	c/sh	(4.4)	(3.1)	(1.9)	15.4	23.2
Depreciation	\$m	(0.5)	(0.3)	(2.1)	(19.0)	(37.6)	Adjusted EPS	c/sh	(5.2)	(3.3)	(2.1)	15.4	23.2
EBIT	\$m	(16.7)	(13.9)	(7.6)	75.6	135.0	EPS growth	%	-	29.5	38.5	908.4	50.7
Net interest expense	\$m	(0.0)	(0.1)	(2.4)	(0.9)	(0.6)	PER	x	-28.4x	-53.5x	-87.1x	10.8x	7.1x
Unrealised gains (Impairments)	\$m	-	-	(1.5)	-	-	DPS	c/sh	1.5	-	-	-	-
Other	\$m	2.4	0.6	2.2	-	-	Franking	%	NA	NA	NA	NA	NA
PBT	\$m	(14.3)	(13.4)	(9.2)	74.6	134.4	Yield	%	1.20	-	-	-	-
Tax expense	\$m	-	-	-	-	(21.9)	FCF/share	c/sh	5.6	12.6	13.0	5.1	25.8
NPAT (reported)	\$m	(14.3)	(13.4)	(9.2)	74.6	112.5	P/CFPS	x	-22.1x	-13.1x	-12.7x	32.3x	6.4x
NPAT (underlying)	\$m	(16.7)	(14.0)	(10.0)	74.6	112.5	EV/EBITDA	x	-52.3x	-55.5x	-153.6x	7.6x	4.2x
CASH FLOW							EBITDA margin	%	64.5	11,431.6	14.9	46.3	53.3
Year ending June	Unit	2020a	2021a	2022e	2023e	2024e	EBIT margin	%	66.6	11,726.3	21.6	36.2	41.7
OPERATING CASHFLOW							Return on assets	%	19.2	10.6	4.2	25.1	27.3
Receipts	\$m	21.5	0.1	32.5	208.9	323.6	Return on equity	%	24.6	15.0	7.2	36.7	35.6
Payments	\$m	(36.1)	(12.2)	(37.1)	(114.0)	(142.1)	LIQUIDITY & LEVERAGE						
Tax	\$m	-	-	-	-	(21.9)	Net debt (cash)	\$m	46.7	58.6	58.5	83.4	208.2
Net interest	\$m	0.5	0.3	(0.5)	(0.9)	(0.6)	ND / E	%	80.6	65.6	45.3	41.0	65.9
Other	\$m	0.8	(0.5)	(0.7)	(5.2)	(8.1)	ND / (ND + E)	%	205.9	245.9	69.9	51.3	83.2
Operating cash flow	\$m	(13.3)	(12.2)	(5.8)	88.7	150.8	EBITDA / Interest	x	2,765.2	213.6	1.8	73.5	143.8
INVESTING CASHFLOW							ASSUMPTIONS - Prices						
Property, plant and equipment	\$m	(1.8)	(2.9)	(0.3)	-	-	Year ending June - average	Unit	2020a	2021a	2022e	2023e	2024e
Mine development	\$m	(0.4)	-	-	-	-	Nickel price	US\$/t Ni	13,969	16,267	24,014	23,689	19,841
Exploration & evaluation	\$m	(0.8)	(28.7)	(57.1)	(63.8)	(26.0)	AUD/USD	A\$/US\$	0.67	0.75	0.73	0.73	0.73
Other	\$m	-	-	-	-	-	Nickel price	A\$/t Ni	20,773	21,732	32,866	32,465	27,180
Investing cash flow	\$m	(2.9)	(31.7)	(57.4)	(63.8)	(26.0)	ASSUMPTIONS - Production						
Free Cash Flow	\$m	(16.3)	(43.9)	(63.2)	24.9	124.8	Year ending June	Unit	2020a	2021a	2022e	2023e	2024e
FINANCING CASHFLOW							Processed - Ore Tonnes	kt	-	-	61	460	620
Share issues/(buy-backs)	\$m	34.0	58.3	64.0	-	-	Processed - Nickel Grade	g/t Au	-	-	2.77	2.70	2.86
Debt proceeds	\$m	-	-	30.0	-	-	Nickel Produced	kt	-	-	1.5	10.8	15.7
Debt repayments	\$m	-	(2.3)	(0.9)	-	-	VALUATION						
Dividends	\$m	-	-	-	-	-	Ordinary shares (m)		484.4		484.4		484.4
Other	\$m	(0.1)	(0.2)	(0.1)	-	-	Options in the money (m)		12.1				12.1
Financing cash flow	\$m	34.0	55.8	93.0	-	-	Diluted (m)		496.5		496.5		496.5
Change in cash	\$m	17.7	11.9	29.8	24.9	124.8	Sum-of-the-parts						
BALANCE SHEET								current	+12 months	+24 months			
Year ending June	Unit	2020a	2021a	2022e	2023e	2024e	\$m	\$/sh	\$m	\$/sh	\$m	\$/sh	
ASSETS							Operations	457	0.94	496	1.02	426	0.88
Cash & short term investments	\$m	46.7	58.6	88.5	113.4	238.2	Corporate	(31)	-0.06	(26)	-0.05	(22)	-0.05
Accounts receivable	\$m	0.1	0.7	-	-	-	Exploration	375	0.77	375	0.77	375	0.77
Property, plant & equipment	\$m	4.0	60.2	124.5	167.2	154.1	Investments	1	0.00	1	0.00	1	0.00
Mine development expenditure	\$m	2.1	0.2	2.3	9.1	10.2	Subtotal	802	1.66	846	1.75	779	1.61
Exploration & evaluation	\$m	19.9	2.6	1.7	3.8	5.3	Net cash / debt	80	0.17	56	0.12	146	0.30
Other	\$m	1.6	4.2	3.9	3.9	3.9	Total (undiluted)	883	1.82	902	1.86	926	1.91
Total assets	\$m	74.4	126.4	220.9	297.5	411.8	Add options in the money (m)	12.1	-	12.1	-	12.1	-
LIABILITIES							Add cash	1.4	0.0	1.4	0.0	1.4	0.0
Accounts payable	\$m	2.8	7.9	15.7	17.6	19.5	Total (diluted)	884.1	1.78	903.4	1.82	927.0	1.87
Income tax payable	\$m	-	-	-	-	-	CAPITAL STRUCTURE						
Borrowings	\$m	-	-	30.0	30.0	30.0	Total shares on issue	m	-	-	-	-	484.4
Other	\$m	13.7	29.2	46.2	46.2	46.2	Share price	\$/sh	-	-	-	-	1.66
Total liabilities	\$m	16.4	37.0	91.9	93.8	95.7	Market capitalisation	\$m	-	-	-	-	804.0
SHAREHOLDER'S EQUITY							Net cash	\$m	-	-	-	-	80.3
Share capital	\$m	95.3	154.3	218.3	218.3	218.3	Enterprise value (undiluted)	\$m	-	-	-	-	723.7
Reserves	\$m	1.2	(12.9)	(28.1)	(28.1)	(28.1)	Options outstanding (m)	m	(price \$0.00 per share)	-	-	-	12.1
Retained earnings	\$m	(38.6)	(52.0)	(61.3)	13.4	125.8	Options (in the money)	m	-	-	-	-	12.1
Total equity	\$m	57.9	89.4	129.0	203.7	316.1	Issued shares (diluted for options)	m	-	-	-	-	496.5
Weighted average shares	m	321.0	429.2	484.4	484.4	484.4	Market capitalisation (diluted)	m	-	-	-	-	824.1
							Net cash + options	\$m	-	-	-	-	81.7
							Enterprise value (diluted)	\$m	-	-	-	-	742.4
MAJOR SHAREHOLDERS													
Shareholder										%		m	
Wylco Metals Pty Ltd										10.4		50.4	
IGO Limited										7.2		34.9	
Tibeca Investment Partners Pty. Ltd.										4.2		20.1	
Tattarang Pty Ltd										2.9		14.1	

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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