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BCI Minerals Ltd (BCI)

Capital cost and timing headwinds

Recommendation
Buy (unchanged)
Price
$0.24
Target (12 months)
$0.53 (previously $0.61)

GICS Sector

Materials

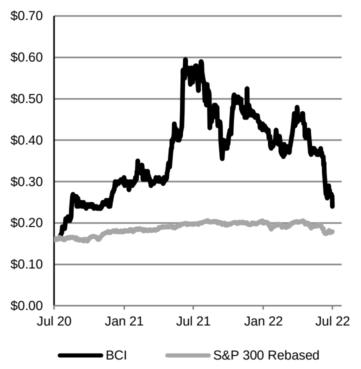
Expected Return	
Capital growth	121%
Dividend yield	0%
Total expected return	121%

Company Data & Ratios	
Enterprise value	$100m
Market cap	$289m
Issued capital	1,206m
Free float	56%
Avg. daily val. (52wk)	$458,222
12 month price range	$0.23-$0.615

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.37	0.44	0.58
Absolute (%)	-35.1	-45.5	-58.3
Rel market (%)	-26.9	-33.9	-49.0

Absolute Price



SOURCE: IRESS

Mardie project faces cost challenges and delays

BCI has flagged development challenges for its Mardie Salt and Potash Project, with significant cost inflation prompting a review of the project's design and cost saving initiatives. BCI also noted a delay to the indicative timeline with first salt sales now from 1H FY26 (previously 1H FY25). This setback is a result of construction delays due to outstanding secondary approvals, extreme weather events and mobility constraints arising from COVID-19 restrictions. BCI intend to provide an update on its ongoing cost and project design review when sufficiently advanced. EPS changes in this report: FY22 +1%; FY23 nc; and FY24 now -1.2cps (previously -1.3cps).

Financing a more expensive project

BCI has financing arrangements in place to support its ~$1.2b capital expenditure requirement for the Mardie project. The funding package includes a $490m NAIF debt facility, $110m Export Finance Australia loan, bank debt of $140m, $100m in undrawn convertible notes, cash at bank of $209m (current), corporate debt (currently being negotiated) and Iron Valley earnings. BCI has further financing support through a $120m cost overrun facility and a $50m guarantee facility. We expect BCI may consider the sale of its Iron Valley earnings stream given the company's primary development focus is the Mardie project or other asset divestments. In this report, we make no changes to our total Mardie project capital cost forecast or assume higher project financing assumptions. However, we have pushed out our initial salt sale timing assumption from 2H FY24 to 1H FY26.

Investment thesis: Buy, TP $0.53/sh (previously $0.61/sh)

The Mardie Salt and SOP project is tier-one in scale and position on the global cost curve, and transformational for BCI. Mardie has received support from government backed debt agencies and commercial lenders, recognising the project's 60+ year life, strong earnings potential and sustainable, carbon neutral credentials. BCI also has near-term cash flows from its Iron Valley operations.

Earnings Forecast

Year ending 30 June	2021a	2022e	2023e	2024e
Sales (A$m)	160	84	82	64
EBITDA (A$m)	63	9	18	13
NPAT (reported) (A$m)	56	6	18	(14)
NPAT (adjusted) (A$m)	56	6	18	(14)
EPS (adjusted) (¢ps)	4.0	0.6	1.5	(1.2)
EPS growth (%)	-19%	-84%	137%	-179%
PER (x)	6.0x	37.4x	15.8x	-20.0x
FCF Yield (%)	-6%	-55%	-90%	-82%
EV/EBITDA (x)	1.6x	11.0x	5.4x	8.0x
Dividend (¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	-	-	-	-
ROE (%)	41%	2%	4%	-3%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Capital cost and timing headwinds

Mardie Salt & Potash development and financing update

BCI has provided an update on its Mardie Salt & Potash development. Key takeaways from the update include:

- **Mardie is experiencing significant cost increases.** BCI is assessing valuing improving changes to the project to minimise expected capital cost increases. These changes will consider engineering opportunities, potential amendments to project design assumptions and cost saving initiatives. BCI will provide an update on this review once sufficiently advanced.
- **BCI now expect first salt sales in 2H 2025 (previously 2H 2024).** Project construction delays due to outstanding approvals, extreme weather events and mobility constraints arising from COVID-19 restrictions have negatively impacted timing of first salt sales.
- **BCI will explore further funding solutions** once an updated project cost estimate is determined. These discussions will be held with shareholders and lenders and may involve asset sales. BCI currently has $209m cash at bank and undrawn convertible notes, providing $100m in project financing (issued in December 2021).
- **BCI intend to provide a progress update by late July 2022.**

Sources and uses of funds

The table below outlines BCI's existing funding arrangements and capital cost break down for the Mardie Salt & Potash project. We assume the majority (if not all) of the early construction capital expenditure has been spent and financed prior to main construction activities commenced in February 2022. If the outcome of BCI's cost and design review are unfavourable (i.e higher capital expenditure required to develop Mardie), BCI may consider financing the incremental capital outlay with asset sales.

Table 1 - BCI's funding sources for the Mardie project

Sources	$m
Northern Australia Infrastructure Facility	490
Export Finance Australia loan	110
Bank debt	140
Placement (completed Dec-21)	240
Share purchase plan (completed Dec-21)	21
Convertible Notes[1]	100
Pre-capital raise cash, Iron Valley earnings and corporate debt[2]	100
Total base sources of funds	**1,201**
Bank support facilities	170
Total base sources of funds (incl. support facilities)	**1,371**
Other assets held by BCI	
Iron Valley earnings stream (BP valuation)	62
Highfield Resources shares (ASX:HFR)	28
Agrimin shares (ASX:AMN)	13
Proceeds from potential asset sales	**103**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES
NOTES: 1) SUBJECT TO DRAW DOWN CONDITIONS
2) CORPORATE DEBT FACILITY UNDER NEGOTIATION TO BE SECURED BY IRON VALLEY EARNINGS

Table 2 - BCI's uses of funds for the Mardie project

Uses	$m
Salt	276
SOP	115
Port	223
Supporting infrastructure	103
Services	15
Other	5
Direct costs	737
Indirect costs (PMC and Construction Facilities)	56
Owner's costs	36
Contingency and growth allowance	84
Total capital cost	**913**
Main construction capital cost	850
Early construction capital cost	63
Early operating costs, working capital and interest payments	250
Total project costs	**1,163**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Mardie project capex & delay valuation sensitivities

BCI has indicated a high likelihood of a material increase to Mardie project capital cost estimates and delays to the overall project schedule.

In this report, we have only updated the timing of first salt sales from the Mardie project, in line with BCI's market update today: 1H FY26. Delays to first product sales outlined in the tables below are extensions to our updated assumptions.

The following tables show the impact of increases in capital costs and project delays on our Mardie project and BCI listed entity valuations.

Capital cost increases are likely to be offset by compensatory increases in salt and SOP commodity prices; it would be asymmetric to only factor in higher capital costs.

Table 3 - Mardie project valuation scenarios $m

Capital cost increase	Base case	+5%	+10%	+15%	+20%
First salt delay					
Base case	**486**	454	436	403	384
1 year	442	413	396	367	349
2 years	402	375	360	333	318

SOURCE: BELL POTTER SECURITIES ESTIMATES

Table 4 - BCI valuation scenarios $/sh

Capital cost increase	Base case	+5%	+10%	+15%	+20%
First salt delay					
Base case	**0.53**	0.51	0.49	0.47	0.46
1 year	0.50	0.48	0.47	0.44	0.43
2 years	0.47	0.45	0.44	0.42	0.41

SOURCE: BELL POTTER SECURITIES ESTIMATES

Earnings change & valuation summary

Changes to earnings estimates

The downgrade to EPS assumptions in FY24 is entirely driven by a delay in first salt sale timing from the Mardie project from 2H FY24 to 1H FY26. The minor EPS upgrade in FY22 reflects June 2022 quarter mark-to-market for the 62% Fe benchmark price and US$:A$ FX.

Table 5 - Changes to earnings estimates

	Previous			New			Change		
Year ending 30 Jun	**2022e**	**2023e**	**2024e**	**2022e**	**2023e**	**2024e**	**2022e**	**2023e**	**2024e**
Production (wmt)	5.5	5.8	5.8	**5.5**	**5.8**	**5.8**	0%	0%	0%
Iron ore price (62% CFR China) (US$/t)	139	110	95	**138**	**110**	**95**	0%	0%	0%
Sales (A$m)	84	82	101	**84**	**82**	**64**	0%	0%	-37%
EBITDA (A$m)	9	18	27	**9**	**18**	**13**	1%	0%	-54%
NPAT (reported) (A$m)	6	18	(16)	**6**	**18**	**(14)**	1%	0%	NA
NPAT (adjusted) (A$m)	6	18	(16)	**6**	**18**	**(14)**	1%	0%	NA
EPS (adjusted) (¢ps)	0.6	1.5	(1.3)	**0.6**	**1.5**	**(1.2)**	1%	0%	NA
Dividend (¢ps)	-	-	-	**-**	**-**	**-**	0%	0%	0%
Valuation ($/sh)	**0.61**			**0.53**			**-13%**		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Risked valuation summary

The table below outlines our BCI sum of the parts valuation. We reiterate our Buy recommendation and downgrade our Target Price to $0.53/sh (previously $0.61/sh). The negative valuation impact of a delay in timing of first salt sales from 2H FY24 to 1H FY26 is more than offset by a roll forward of our Mardie DCF model.

Table 6 - Risked valuation summary

	Previous	New
Mardie Salt & Potash project (unrisked) $m	466	486
Risk discount to account for project stage %	10%	10%
Mardie Salt & Potash project (risked) $m	419	438
Iron Valley agreement $m	79	62
Value of core projects (risked) $m	**498**	**500**
Other assets $m	46	41
Corporate & admin $m	-80	-80
Enterprise value (risked) $m	**464**	**461**
Net debt / (cash) $m	-282	-190
Equity value (risked, undiluted) $m	**746**	**651**
Current shares on issue m	1,206	1,206
In the money options & rights m	17	17
Assumed capital raising dilution m		
Diluted shares on issue m	**1,223**	**1,223**
Net debt / (cash) (including raising) A$m	-282	-190
Equity value (risked, diluted) $m	746	651
Equity value (risked, diluted) $/sh	**$0.61/sh**	**$0.53/sh**
Current share price		$0.24/sh
Equity value upside to current share price %		121%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

BCI Minerals Ltd (BCI)

Company description

BCI's key assets are the Mardie Salt and SOP project and a portfolio of iron ore tenements. A DFS on Mardie was published in July 2020 outlining a project capable of producing 4.4Mtpa salt and 120ktpa SOP and with a pre-tax NPV (7% discount rate) of $1,197m. BCI's key iron ore asset is its Iron Valley Resource which is mined under agreement by Mineral Resources Ltd (MIN) and provides a royalty-like earnings stream. BCI also has a number of royalty agreements on other iron ore tenements at earlier stages of development.

Investment thesis: Buy, TP $0.53/sh (previously $0.61/sh)

The Mardie Salt and SOP project is tier-one in scale and position on the global cost curve, and transformational for BCI. Mardie has received support from government backed debt agencies and commercial lenders, recognising the project's 60+ year life, strong earnings potential and sustainable, carbon neutral credentials. BCI also has near-term cash flows from its Iron Valley operations.

Valuation methodology

Principal inputs into our valuation of BCI are discounted cash flow models of:

- Mardie Salt & SOP project, applying parameters consistent with the April 2021 Optimised DFS, however, using more conservative discount rate and foreign exchange assumptions and a risk discount applied to account for project stage.
- Iron Valley agreement with MIN, operating at on average 6.0Mtpa and generating annual EBITDA of around $20m until 2030 assuming a long term iron ore price of US$95/t (real).
- Other assets assessed on the basis of the royalty agreement, the in-ground value of the iron ore and a discount to account for risks associated with timing and development.
- Corporate costs and tax assets.

Investment risks

Risks include, but are not limited to:

- Commodity price and exchange rate fluctuations. The future earnings and valuations of exploration, development and operating resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- Infrastructure access. Bulk commodity producers are particularly reliant upon access to transport infrastructure. Access to infrastructure is often subject to contractual agreements, permits, and capacity allocations. Agreements are typically long-term in nature (+10 years). Infrastructure can be subject to outages as a result of weather events or the actions of third party providers.
- Operating and capital cost fluctuations. Markets for 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 markets.
- Resource growth and mine life extensions. Future earnings forecasts and valuations may rely upon resource and reserve growth to extend mine lives.
- Sovereign risks. Mining companies' assets can be located in countries other than Australia and are subject to the sovereign risks of that country.
- Regulatory changes risks. Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- Environmental risks. Resources companies are exposed to risks associated with environmental degradation as a result of their exploration and mining processes. Fossil fuel producers (coal) may be particularly exposed to the environmental risks of end markets including the electricity generation and steel production industries.
- Operating and development risks. Resources 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 operation company. Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- Occupational health and safety risks. Resources companies are particularly exposed to OH&S risks given the physical nature and human resource intensity of operating assets.
- 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.
- Merger/acquisition risks. Risks associated with value transferred during merger and acquisition activity.
- COVID-19 risks: Resources 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.

BCI Minerals Ltd
as at 7 July 2022

Recommendation	Buy
Price	$0.24
Target (12 months)	$0.53

Table 7 - Financial summary

Date		**7/07/22**
Price	**A$/sh**	**0.24**
Target price	**A$/sh**	**0.53**

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PROFIT AND LOSS

Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e
Revenue	$m	77	160	84	82	64
Expenses	$m	(62)	(97)	(65)	(63)	(51)
EBITDA	$m	**15**	**63**	**9**	**18**	**13**
Depreciation & amortisation	$m	(6)	(7)	(3)	-	-
EBIT	$m	9	56	6	18	13
Net interest expense	$m	0	0	0	-	(27)
Profit before tax	$m	10	56	6	18	(14)
Tax expense	$m	-	-	-	-	-
NPAT (reported)	$m	**10**	**56**	**6**	**18**	**(14)**
NPAT (adjusted)	$m	**20**	**56**	**6**	**18**	**(14)**

CASH FLOW STATEMENT

Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e
OPERATING CASH FLOW						
Receipts from customers	$m	82	121	138	87	65
Payments to suppliers and employees	$m	(78)	(112)	(103)	(72)	(53)
Tax paid	$m	-	-	-	-	-
Net interest	$m	0	0	0	-	(27)
Other	$m	-	-	(0)	-	-
Operating cash flow	$m	**4**	**9**	**35**	**15**	**(15)**
INVESTING CASH FLOW						
Capex	$m	(7)	(17)	(168)	(277)	(222)
Disposal of assets	$m	11	-	(0)	-	-
Other	$m	-	0	(0)	-	-
Investing cash flow	$m	**3**	**(17)**	**(168)**	**(277)**	**(222)**
FINANCING CASH FLOW						
Debt proceeds/(repayments)	$m	-	-	-	531	225
Dividends paid	$m	-	-	-	-	-
Proceeds from share issues (net)	$m	-	46	256	-	-
Other	$m	-	(0)	(0)	-	-
Financing cash flow	**$m**	-	46	256	531	225
Change in cash	**$m**	**34**	**42**	**79**	**203**	**472**
Free cash flow	$m	8	(8)	(133)	(262)	(237)

BALANCE SHEET

Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e
ASSETS						
Cash	$m	42	79	203	472	460
Receivables	$m	16	56	18	12	11
Inventories	$m	-	-	-	-	-
Capital assets	$m	46	59	228	505	727
Other assets	$m	32	33	69	98	98
Total assets	**$m**	**136**	**228**	**517**	**1,087**	**1,296**
LIABILITIES						
Creditors	$m	18	38	27	19	17
Borrowings	$m	-	-	18	579	804
Provisions	$m	12	16	16	16	16
Other liabilities	$m	1	2	2	2	2
Total liabilities	**$m**	**32**	**55**	**64**	**615**	**839**
NET ASSETS	**$m**					
Share capital	$m	267	313	570	570	570
Reserves	$m	5	6	24	24	24
Accumulated losses	$m	(169)	(147)	(140)	(122)	(136)
Non-controlling interest	$m	-	-	-	-	-
SHAREHOLDER EQUITY	**$m**	**104**	**173**	**454**	**472**	**458**
Weighted average shares	m	399	548	1,004	1,206	1,206

FINANCIAL RATIOS

Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e
VALUATION						
EPS	Ac/sh	4.9	4.0	0.6	1.5	(1.2)
EPS growth (Acps)	%	52%	-19%	-84%	137%	-179%
PER	x	4.9x	6.0x	37.4x	15.8x	-20.0x
DPS	Ac/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	Ac/sh	2.0	(1.4)	(13.2)	(21.7)	(19.7)
FCF yield	%	8%	-6%	-55%	-90%	-82%
EV/EBITDA	x	6.7x	1.6x	11.0x	5.4x	8.0x
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	(42)	(79)	(184)	107	344
Net debt / Equity	%	-40%	-46%	-41%	23%	75%
Net debt / Net debt + Equity	%	-66%	-85%	-68%	18%	43%
Net debt / EBITDA	x	-2.8x	-1.3x	-20.2x	5.8x	27.4x
EBITDA /net int expense	x	35.0x	226.4x	66.0x	0.0x	-0.5x
PROFITABILITY RATIOS						
EBITDA margin	%	20%	40%	11%	22%	20%
EBIT margin	%	12%	35%	7%	22%	20%
Return on assets	%	7%	31%	2%	2%	-1%
Return on equity	%	9%	41%	2%	4%	-3%

ASSUMPTIONS - Prices (nominal)

Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e
Iron ore price (62% CFR China)	US$/t	94	155	138	110	95
Salt price (CFR Asia)	US$/t			-	-	45
SOP price (FOB Australia)	US$/t			-	-	-
FX	US$/A$	0.67	0.75	0.73	0.73	0.73

ASSUMPTIONS - Sales (equity)

Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e
Iron ore sales	Mt	7.2	6.0	5.5	5.8	5.8
Salt sales	Mt	-	-	-	-	0.5
SOP sales	kt	-	-	-	-	-

SEGMENT EBITDA

Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e
Iron Valley	$m	21	70	30	26	21
Mardie Salt & SOP	$m	-	-	(11)	-	-
Other	$m	(6)	(6)	(10)	(8)	(8)
Total	**$m**	**15**	**63**	**9**	**18**	**13**

VALUATION

Shares on issue m			1,206
Shares and rights on issue m			1,223
Valuation		**A$m**	**A$/sh**
Mardie Salt & Potash project (unrisked)	$486m		
Risk discount to account for project stage	10%		
Mardie Salt & Potash project (risked)		$438m	
Iron Valley agreement		$62m	
Value of core projects (risked)		**$500m**	
Other assets		$41m	
Corporate & admin		-$80m	
Enterprise value (risked)		$461m	
Net debt / (cash) (including raising)		-$190m	
Equity value of core projects (risked)		**$651m**	**$0.53/sh**

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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