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BCI Minerals Ltd (BCI)

Q3 FY22: Mardie underway; IV weaker

Recommendation
Buy (unchanged)
Price
$0.405
Target (12 months)
$0.61 (previously $0.63)

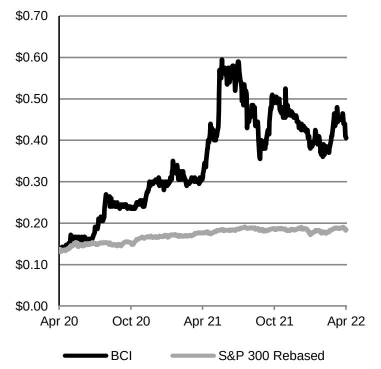
GICS Sector
Materials

Expected Return	
Capital growth	51%
Dividend yield	0%
Total expected return	51%
Company Data & Ratios	
Enterprise value	$207m
Market cap	$489m
Issued capital	1,206m
Free float	47%
Avg. daily val. (52wk)	$477,830
12 month price range	$0.30-0.615

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.43	0.41	0.31
Absolute (%)	-4.7	0.0	31.7
Rel market (%)	-4.0	-2.4	27.5

Absolute Price



SOURCE: IRESS

Another weaker than expected quarter at Iron Valley

BCI reported weaker than expected March 2022 quarter Iron Valley shipments of 1.0Mt (BPe 1.4Mt) and EBITDA of $3.5m (BPe $10m); the weaker EBITDA driven by lower sales volumes and what we suspect is lower realised pricing. Assuming Iron Valley sales volumes hold, the year-to-date strength in the Fe 62% benchmark iron ore price points to improved realised pricing and EBITDA in the June 2022 quarter. BCI reported quarter-end cash of $301m ($334m at 31 December 2021) and no debt.

EPS changes in this report: FY22 now 0.6cps (previously 0.9cps); FY23 +7%; and FY24 now -1.3cps (previously -1.2cps).

Mardie development review: Costs & project delays likely

BCI are undertaking internal reviews on the Mardie Salt and Potash Project seeking to minimise impacts from current and expected inflationary cost pressures and potential delays to its development timeline. The company has noted challenging market conditions (tight labour conditions, high fuel costs and supply chain delays) and design changes relating to project optimisation and regulatory requirements as drivers of higher capital cost expectations. Constrained labour availability, delayed regulatory approvals and a slower than expected ramp up of contractors utilisation have the potential to impact the project's schedule. Page three of this report includes valuation sensitivities Mardie project capex and delays. We are yet to make any changes to our project valuation, noting that capex and delay impacts are likely to be offset by compensatory increases in commodity prices.

Investment thesis: Buy, TP $0.61/sh (previously $0.63/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$m)	160	84	82	101
EBITDA (A$m)	63	9	18	27
NPAT (reported) (A$m)	56	6	18	(16)
NPAT (adjusted) (A$m)	56	6	18	(16)
EPS (adjusted) (¢ps)	4.0	0.6	1.5	(1.3)
EPS growth (%)	-19%	-84%	139%	-185%
PER (x)	10.1x	63.5x	26.6x	-31.1x
FCF Yield (%)	-3%	-30%	-67%	-71%
EV/EBITDA (x)	3.3x	22.9x	11.3x	7.6x
Dividend (¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	-	-	-	-
ROE (%)	41%	2%	4%	-3%

SOURCE: BELL POTTER SECURITIES ESTIMATES

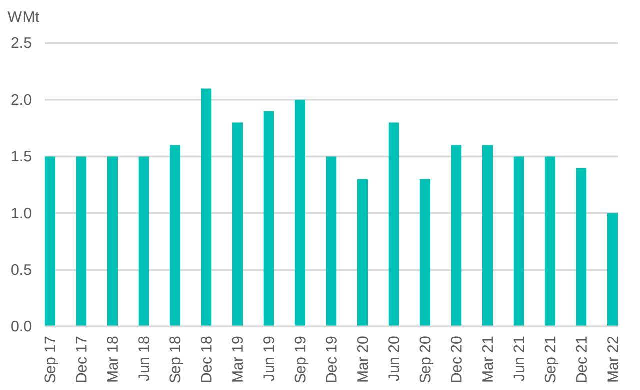
Q3 FY22: Mardie underway; IV weaker

Table 1 - Quarterly summary

	Mar-21(a)	Jun-21(a)	Sep-21(a)	Dec-21(a)	Mar-22(a)	QoQ	Mar-22(e)	(a) vs (e)
Iron Valley sales mt	1.6	1.5	1.5	1.4	**1.0**	-29%	**1.4**	-29%
Iron Valley EBITDA A$m	20.2	32.2	3.5	1.8	**3.5**	94%	**10.0**	-65%
Average iron ore 62% Fe benchmark price $US/t	171.0	200	164	109	**141**	29%		
A$:U$ FX	0.77	0.77	0.73	0.73	**0.72**	-1%		
Average iron ore 62% Fe benchmark price $A/t	221	260	223	150	**195**	30%		
Cash position A$m	76	79	87	334	**301**			

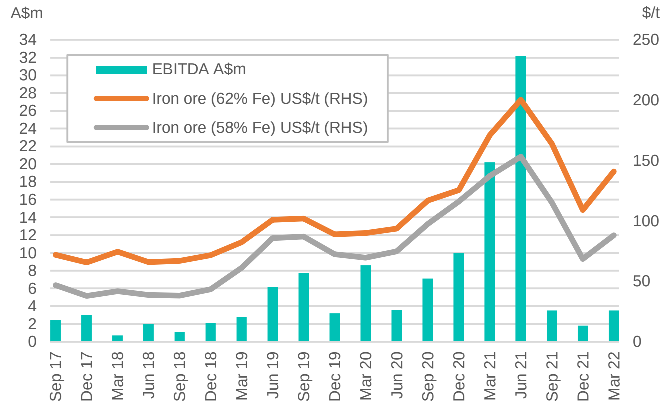
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 1 - Iron ore shipments (M wmt)



SOURCE: BCI QUARTERLY REPORTS

Figure 2 - Iron Valley EBITDA (A$m) versus iron ore prices



SOURCE: BCI QUARTERLY REPORTS

Key observations from the quarterly update

- **Mardie main construction commences:** Major construction activities have commenced following receipt of Mining Leases during the quarter. Construction to date has been focused on pond development and the installation of the main seawater pump infrastructure.
- **Mardie cost development timeline review:** BCI are undertaking internal reviews (currently early stage) seeking to minimise inflationary cost pressures and schedule delay impacts on the four year Mardie construction period. These preliminary reviews have not been sufficiently advanced to provide an updated capital cost estimate or project development timeline. However, BCI have indicated the likelihood of materially higher capital expenditure requirements and an extension to the construction schedule.
- **Iron Valley weaker again:** Quarterly shipments were materially lower than the prior quarter and our expectation, and the weakest performance in at least the past 7 quarters. Quarterly EBITDA was also weaker than expected driven by weaker sales and what we expect is lower realised pricing. Year-to-date strength in the Fe 62% benchmark price (CFR China) points to a stronger June 2022 quarter with regard to EBITDA.
- **Balance sheet remains strong:** Quarter-end cash was $301m (down from $334m in the prior quarter), with draw down on cash from Mardie capital cost requirements. BCI is progressing discussion with lenders to organise a corporate debt facility secured against Iron Valley cash flows. At quarter-end, the market value of BCI's 26.3m shares in Highfield Resources Limited (HFR) and 31.1m shares in Agrimin Ltd (AMN) were $15.3m and $41.1m, respectively.

Mardie project capex & delay valuation sensitivities

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

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

We have not made any changes to our base case Mardie valuation. Capital cost increases and the impact of delays 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 and delays.

Table 2 - Mardie project valuation scenarios $m

Capital cost increase	Base case	+5%	+10%	+15%	+20%
First salt delay					
Base case	**466**	429	405	367	342
1 year	424	390	368	333	311
2 years	385	354	334	303	282

SOURCE: BELL POTTER SECURITIES ESTIMATES

Table 3 - BCI valuation scenarios $/sh

Capital cost increase	Base case	+5%	+10%	+15%	+20%
First salt delay					
Base case	**0.61**	0.58	0.56	0.54	0.52
1 year	0.58	0.55	0.54	0.51	0.50
2 years	0.55	0.53	0.51	0.49	0.47

SOURCE: BELL POTTER SECURITIES ESTIMATES

Historical and expected Iron ore price

The following chart represents historical and expected iron ore prices (62% Fe, CFR China). Benchmark prices have recovered 61% from recent lows to currently US$141/t. We expect prices to average US$140/t in 1H 2022, US$120/t in 2H 2022 and US$95/t (real) in the long term.

Figure 3 - Iron ore Fe 62% US$/t CFR Qingdao - Historical & expected prices

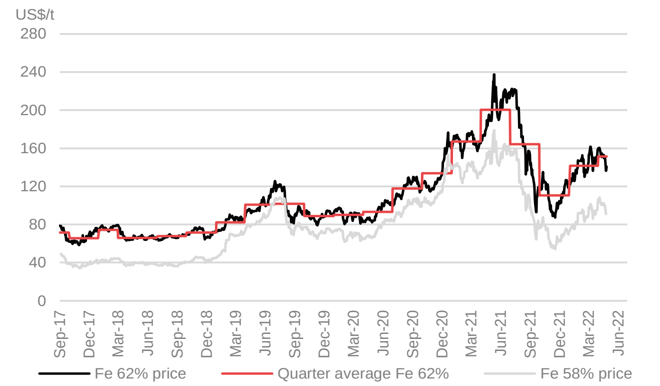
SOURCE: BLOOMBERG, CONSENSUS ECONOMICS & BELL POTTER SECURITIES ESTIMATES

Price volatility and quality discount impact Iron Valley EBITDA

The charts below outline historical China delivered index prices for 62% Fe and 58% Fe iron ore products and the grade discount implied.

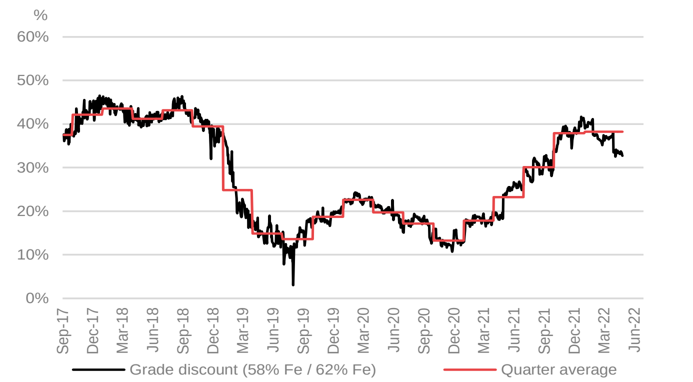
- Grade (and quality) discounts increased throughout 2021, reaching levels not seen since late 2018. Iron Valley ore pricing is adjusted for its lower iron content and other value in use parameters.
- Iron Valley's relatively small sales volumes (around 1.5Mt per quarter) translates to only a couple of shipments per month. The timing of these shipments has a large impact on realised prices. Recent price volatility has impacted iron ore shipments valued at their destination in a significantly weaker iron ore price environment.

Figure 4 - Historical Fe 62% and Fe 58% prices (CFR China)



SOURCE: FASTMARKETS (FE 62% PRICE: MB-IRO-0008; FE 58% PRICE: MB-IRO-0015)

Figure 5 - Historical grade discount (58% Fe / 62% Fe)



SOURCE: FASTMARKETS (FE 62% PRICE: MB-IRO-0008; FE 58% PRICE: MB-IRO-0015)

Earnings change & valuation summary

Changes to earnings estimates

We have updated our BCI financial model, incorporating the March 2022 quarterly update and made the following adjustments:

- Lowered our forward Iron Valley quarterly shipment assumptions through Life of Mine;
- Lowered our price realisation assumptions for the June 2022 quarter and in FY23; and
- Upgraded our benchmark iron price assumptions in the June 2022 quarter by +27% to US$140/t and +13% in FY23 to US$110/t.

Table 4 - Changes to earnings estimates

	Previous			New			Change		
Year ending 30 Jun	**2022e**	**2023e**	**2024e**	**2022e**	**2023e**	**2024e**	**2022e**	**2023e**	**2024e**
Production (wmt)	5.7	6.0	6.0	**5.5**	**5.8**	**5.8**	-4%	-3%	-4%
Iron ore price (62% CFR China) (US$/t)	123	98	95	**139**	**110**	**95**	12%	13%	0%
Sales (A$m)	78	72	104	**84**	**82**	**101**	8%	13%	-3%
EBITDA (A$m)	12	17	28	**9**	**18**	**27**	-23%	7%	-3%
NPAT (reported) (A$m)	9	17	(15)	**6**	**18**	**(16)**	-29%	7%	na
NPAT (adjusted) (A$m)	9	17	(15)	**6**	**18**	**(16)**	-29%	7%	na
EPS (adjusted) (¢ps)	0.9	1.4	(1.2)	**0.6**	**1.5**	**(1.3)**	-29%	7%	na
Dividend (¢ps)	-	-	-	**-**	**-**	**-**	0%	0%	0%
Valuation ($/sh)	**0.63**			**0.61**			**-3%**		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Risked valuation summary

The table below outlines our BCI sum of the parts valuation. Our Buy recommendation and $0.61/sh Target Price is unchanged.

Table 5 - Risked valuation summary

	Previous	New
Mardie Salt & Potash project (unrisked) $m	466	466
Risk discount to account for project stage %	10%	10%
Mardie Salt & Potash project (risked) $m	419	419
Iron Valley agreement $m	88	79
Value of core projects (risked) $m	**508**	**498**
Other assets $m	33	46
Corporate & admin $m	-80	-80
Enterprise value (risked) $m	**461**	**464**
Net debt / (cash) $m	-304	-282
Equity value (risked, undiluted) $m	**765**	**746**
Current shares on issue m	1,206	1,206
In the money options & rights m	17	17
Assumed capital raising dilution m		
Diluted shares on issue m	**1,223**	**1,223**
Net debt / (cash) (including raising) A$m	-304	-282
Equity value (risked, diluted) $m	765	746
Equity value (risked, diluted) $/sh	**$0.63/sh**	**$0.61/sh**
Current share price		$0.405/sh
Equity value upside to current share price %		51%

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 $0.61/sh (previously $0.63/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 July 2020 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 7.6Mtpa and generating annual EBITDA of around $13m until 2030 assuming a long term iron ore price of US$75/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 28 April 2022

Recommendation	Buy
Price	$0.405
Target (12 months)	$0.61

Table 6 - Financial summary

Date		28/04/22
Price	A$/sh	0.41
Target price	A$/sh	0.60

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PROFIT AND LOSS

Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e
Revenue	$m	77	160	84	82	101
Expenses	$m	(62)	(97)	(64)	(63)	(74)
EBITDA	$m	**15**	**63**	**9**	**18**	**27**
Depreciation & amortisation	$m	(6)	(7)	(3)	-	(16)
EBIT	$m	9	56	6	18	11
Net interest expense	$m	0	0	0	-	(27)
Profit before tax	$m	10	56	6	18	(16)
Tax expense	$m	-	-	-	-	-
NPAT (reported)	$m	**10**	**56**	**6**	**18**	**(16)**
NPAT (adjusted)	$m	**20**	**56**	**6**	**18**	**(16)**

CASH FLOW STATEMENT

Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e
OPERATING CASH FLOW						
Receipts from customers	$m	82	121	138	87	89
Payments to suppliers and employees	$m	(78)	(112)	(103)	(72)	(57)
Tax paid	$m	-	-	-	-	-
Net interest	$m	0	0	0	-	(27)
Other	$m	-	-	(0)	-	-
Operating cash flow	$m	**4**	**9**	**35**	**15**	**5**
INVESTING CASH FLOW						
Capex	$m	(7)	(17)	(155)	(342)	(352)
Disposal of assets	$m	11	-	(0)	-	-
Other	$m	-	0	(0)	-	-
Investing cash flow	$m	**3**	**(17)**	**(155)**	**(342)**	**(352)**
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**	**215**	**420**
Free cash flow	$m	8	(8)	(120)	(327)	(348)

BALANCE SHEET

Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e
ASSETS						
Cash	$m	42	79	215	420	297
Receivables	$m	16	56	18	12	24
Inventories	$m	-	-	-	-	-
Capital assets	$m	46	59	215	557	893
Other assets	$m	32	33	69	98	98
Total assets	**$m**	**136**	**228**	**517**	**1,087**	**1,313**
LIABILITIES						
Creditors	$m	18	38	27	19	36
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**	**63**	**615**	**857**
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)	(138)
Non-controlling interest	$m	-	-	-	-	-
SHAREHOLDER EQUITY	**$m**	**104**	**173**	**454**	**472**	**456**
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	(1.3)
EPS growth (Acps)	%	52%	-19%	-84%	139%	-185%
PER	x	8.2x	10.1x	63.5x	26.6x	-31.1x
DPS	Ac/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	Ac/sh	2.0	(1.4)	(12.0)	(27.1)	(28.8)
FCF yield	%	5%	-3%	-30%	-67%	-71%
EV/EBITDA	x	14.5x	3.4x	24.0x	11.9x	8.0x
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	(42)	(79)	(197)	159	507
Net debt / Equity	%	-40%	-46%	-43%	34%	111%
Net debt / Net debt + Equity	%	-66%	-85%	-77%	25%	53%
Net debt / EBITDA	x	-2.8x	-1.3x	-21.8x	8.7x	18.7x
EBITDA /net int expense	x	35.0x	226.4x	65.6x	0.0x	-1.0x
PROFITABILITY RATIOS						
EBITDA margin	%	20%	40%	11%	22%	27%
EBIT margin	%	12%	35%	7%	22%	11%
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$/t	94	155	139	110	95
Salt price (CFR Asia)	US$/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)	-	15
Other	$m	(6)	(6)	(10)	(8)	(8)
Total	**$m**	**15**	**63**	**9**	**18**	**27**

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)	$466m		
Risk discount to account for project stage	10%		
Mardie Salt & Potash project (risked)		$419m	
Iron Valley agreement		$79m	
Value of core projects (risked)		**$498m**	
Other assets		$46m	
Corporate & admin		-$80m	
Enterprise value (risked)		$464m	
Net debt / (cash) (including raising)		-$271m	
Equity value of core projects (risked)		**$735m**	**$0.6/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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Research Coverage & Policies

For Bell Potter Securities' Research Coverage Decision Making Process and Research Independence Policy please refer to our company website: https://bellpotter.com.au/research-independence-policy/.

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