BELL POTTER

31 January 2022

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BCI Minerals Ltd (BCI)

Q2 FY22: Mardie ready; iron ore volatility

Recommendation
Buy (unchanged)
Price
$0.395
Target (12 months)
$0.63 (previously $0.66)

GICS Sector

Materials

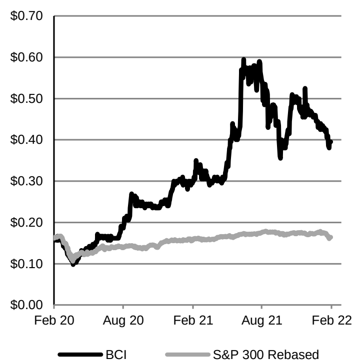
Expected Return	
Capital growth	**59%**
Dividend yield	**0%**
Total expected return	**59%**

Company Data & Ratios	
Enterprise value	**$172m**
Market cap	**$476m**
Issued capital	**1,206m**
Free float	**37%**
Avg. daily val. (52wk)	**$396,431**
12 month price range	**$0.29-0.615**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.45	0.49	0.30
Absolute (%)	-11.2	-19.4	33.9
Rel market (%)	-5.3	-13.1	31.4

Absolute Price



SOURCE: IRESS

Mardie milestones achieved in readiness for development

BCI is now readying for full scale development of the Mardie Salt and SOP project to commence on receipt of final approvals in the current quarter. During the December 2021 quarter: State and federal environmental approval was received; critical land access agreements finalised; BCI's Board took a Final Investment Decision; and required debt and equity finance for the +$1b project obtained. BCI closed the quarter with $334m in cash and over $900m in undrawn finance facilities.

Iron ore price volatility hits Iron Valley EBITDA

Iron Valley reported significantly weaker quarterly EBITDA of $1.8m and the September quarter result was restated from $17m to $3.5m. The hit to earnings caused by weaker iron ore prices, increased price volatility and increased quality discounts. Iron Valley's relatively small scale and few monthly shipments exacerbates the earnings impact when cargos are priced at their destination in weaker markets. With iron ore prices strengthening into 2022, BCI expect some of this earnings weakness to unwind. However, persistently high quality discounts have continued into this year. Ordinarily, this earnings weakness would be of concern. However, BCI's Mardie funding is now arranged with little call on Iron Valley's earnings to support the project's development. EPS changes in this report relate to adjustments to our Iron Valley assumptions alone: FY22 now -0.6cps (previously 2.7cps); FY23 now 1.4cps (previously 1.9cps); and FY24 now -1.2cps (previously -1.0cps).

Investment thesis: Buy, TP$0.63/sh (previously $0.66/sh)

The Mardie Salt and SOP project is tier-one in scale and transformational for BCI. The project is nearing final approvals and the commencement of full-scale development. 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$m)	160	84	72	104
EBITDA (A$m)	63	(6)	17	28
NPAT (reported) (A$m)	56	(6)	17	(14)
NPAT (adjusted) (A$m)	56	(6)	17	(14)
EPS (adjusted) (¢ps)	4.0	(0.6)	1.4	(1.2)
EPS growth (%)	-19%	-115%	na	-184%
PER (x)	9.8x	na	27.8x	na
FCF Yield (%)	-4%	-35%	-68%	-72%
EV/EBITDA (x)	2.7x	na	10.0x	6.2x
Dividend (¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	-	-	-	-
ROE (%)	41%	-2%	4%	-3%

SOURCE: BELL POTTER SECURITIES ESTIMATES

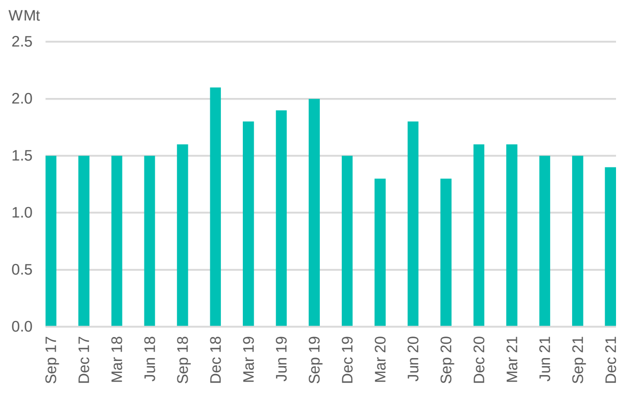
Q2 FY22: Mardie ready; iron ore volatility

Table 1 - Quarterly summary

	Dec-20(a)	Mar-21(a)	Jun-21(a)	Sep-21(a)	Dec-21(a)	QoQ	Dec-21(e)	(a) vs (e)
Iron Valley sales mt	1.6	1.6	1.5	1.5	**1.4**	-7%	**1.6**	-13%
Iron Valley EBITDA A$m	10.0	20.2	32.2	17.1	**1.8**	-89%	**14.6**	-88%
Iron Valley EBITDA (restated) A$m				3.5	**1.8**	-49%		
Average iron ore 62% Fe benchmark price $US/t	126	171	200	164	**109**	-34%	**95**	15%
A$:U$ FX	0.73	0.77	0.77	0.73	**0.73**	-1%	**0.74**	-2%
Average iron ore 62% Fe benchmark price $A/t	172	221	260	223	**152**	-32%	**128**	18%
Cash position A$m	79	76	79	87	**334**			

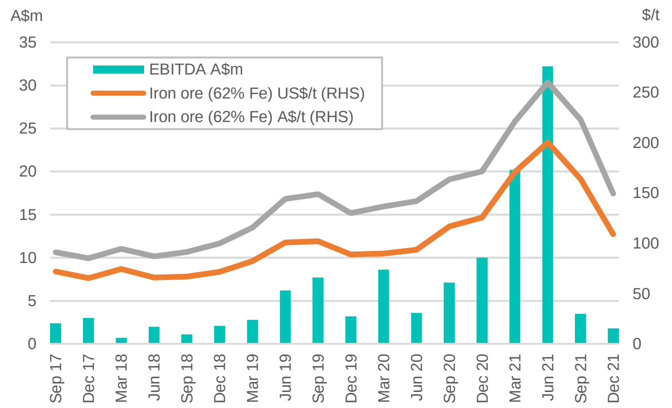
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 1 - Iron ore shipments (M wmt)



SOURCE: BCI QUARTERLY REPORTS

Figure 2 - Iron Valley EBITDA (A$m)



SOURCE: BCI QUARTERLY REPORTS

Key observations from the quarterly

- **Commencement of Mardie main construction works imminent:** BCI achieved many milestones during the quarter including receiving environmental approval from state and Federal Governments, securing development approval for its Mardie port facilities and finalising an Access agreement with owners of gas pipelines that intersect the project footprint. BCI's Board also took a Final Investment Decision on the Mardie project (previously announced). BCI expect to receive all necessary secondary approvals in February 2022, to enable main construction works to proceed.
- **Iron Valley EBITDA impacted by declining iron ore prices:** December 2021 quarter EBITDA was $1.8m, down 49% from prior quarter ($3.5m restated for the September 2021 quarter). The weaker earnings were due to lower iron ore index prices and higher product quality discounts, to a much greater extent than in prior quarters and our forecasts. September quarter EBITDA was restated from $17.1m down to $3.5m as realised prices were significantly below BCI's forecast provisional prices; shipments were ultimately priced at their destination in weaker iron ore markets. BCI anticipate stronger quarterly Iron Valley EBITDA in the March 2022 quarter given the recent recovery in iron ore index prices (now over US$140/t).
- **Balance sheet: Equity raise complete; cash at bank boosted to $334m:** BCI completed a $240m placement and $20.6m share purchase plan at $0.43/sh in late December 2021. Three convertible notes were also issued: Series 1 with a face value of $29.1m (interest free), for the acquisition of 31m shares in Agrimin Limited (AMN, Buy (Speculative), Val$0.97/sh) and Highfield Resources Limited (HFR, not rated); and Series 2 and 3 for up to $100m in further project financing. At quarter-end, cash at

bank was $334.1m (September 2021 quarter $87.4m). BCI has no drawn corporate debt, however, has around $740m in undrawn debt finance facilities to fund the Mardie project's construction.

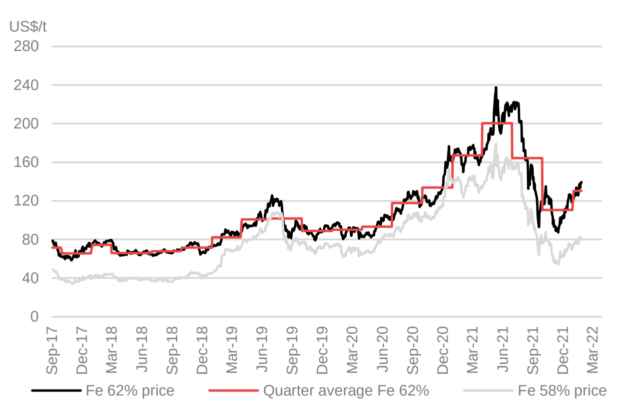
Iron Valley weakness & EBITDA restatement

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

While not published, BCI's realised prices in the September and December 2021 quarters were significantly weaker than the company and we had expected:

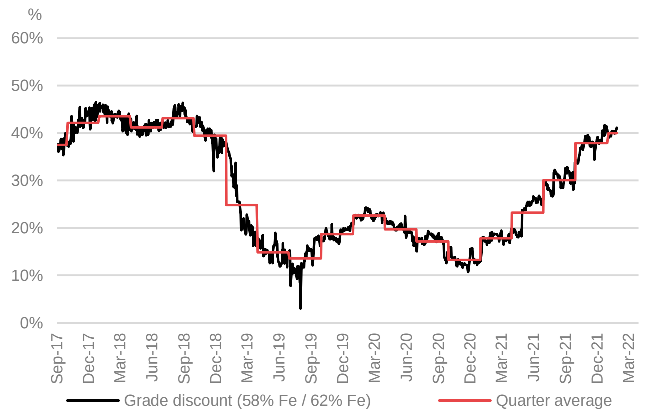
- Price volatility was markedly higher, with a price range of over US$100/t in the September 2021 quarter. Iron ore shipments ultimately being priced at their destination in a significantly weaker iron ore price environment.
- Grade (and quality) discounts increased throughout 2021, reaching levels not 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.

Figure 3 - Historical Fe 62% and Fe 58% prices (CFR China)



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

Figure 4 - Historical grade discount (58% Fe / 62% Fe)



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

Near-term value catalysts & news flow

- **Q1 2022:**
  1. Receipt of all necessary secondary approvals and granting of mining tenure.
  2. Commencement of large scale development and construction activities.
- **2H FY22:** Further Mardie project salt and SOP offtake MoUs and the conversion of existing MoUs into conditional binding offtake agreements.

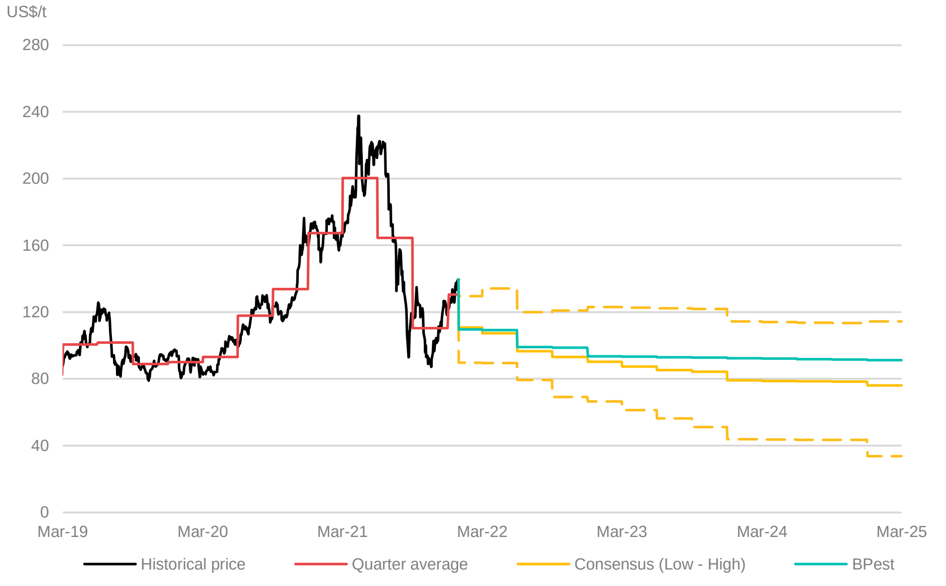
Changes to earnings estimates

We have updated our BCI financial model for the December 2021 quarterly report and have made the following adjustments:

- We have modestly downgraded our iron ore price assumptions (62% Fe CFR China) in 2H FY22 by 2% to US$110/t and 3% in FY23 to US$98/t. Our long term price forecasts are unchanged at US$95/t. The chart below outlines our latest iron ore price forecasts compared with Consensus Economics' outlook (January 2022 survey).
- Reduced our forward Iron Valley shipment assumptions;
- Increased price discounts received on 2H FY22 Iron Valley sales;
- Rolled forward our financial model for the Mardie project and Iron Valley earnings stream.

The EPS downgrade in FY22 reflects the significant restatement in September 2021 quarterly Iron Valley earnings, reduction in forward shipment assumptions and widening product grade discounts received. EPS changes in FY23-4 also reflect our downgrade to Iron Valley shipment volumes.

Figure 5 - Iron ore Fe 62% US$/t CFR Qingdao - Historical & expected prices



SOURCE: FASTMARKETS, CONSENSUS ECONOMICS & BELL POTTER SECURITIES ESTIMATES

Table 2 - Changes to earnings estimates

	Previous			New			Change		
Year ending 30 Jun	2022e	2023e	2024e	2022e	2023e	2024e	2022e	2023e	2024e
Production (wmt)	6.3	7.0	7.0	**5.7**	**6.0**	**6.0**	-10%	-14%	-14%
Iron ore price (62% CFR China) (US$/t)	121	100	95	**123**	**98**	**95**	2%	-3%	0%
Sales (A$m)	119	88	115	**84**	**72**	**104**	-29%	-18%	-10%
EBITDA (A$m)	25	23	32	**(6)**	**17**	**28**	NA	-24%	-11%
NPAT (reported) (A$m)	25	23	(12)	**(6)**	**17**	**(14)**	NA	-24%	NA
NPAT (adjusted) (A$m)	25	23	(12)	**(6)**	**17**	**(14)**	NA	-24%	NA
EPS (adjusted) (¢ps)	2.7	1.9	(1.0)	**(0.6)**	**1.4**	**(1.2)**	NA	-24%	NA
Dividend (¢ps)	-	-	-	**-**	**-**	**-**	0%	0%	0%
Valuation ($/sh)	0.66			**0.63**			-5%		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Valuation summary

Risked valuation summary

The table below outlines our BCI valuation after incorporating BCI's December 2021 quarterly update. Our revised target price is $0.63/sh (previously $0.66/sh) and our Buy recommendation is unchanged.

Table 3 - 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	100	88
Value of core projects (risked) $m	**519**	**508**
Other assets $m	34	33
Corporate & admin $m	-80	-80
Enterprise value (risked) $m	**474**	**461**
Net debt / (cash) $m	-337	-304
Equity value (risked, undiluted) $m	**811**	**765**
Assumed near-term capital raise $m		
Assumed raise price $/sh		
Current shares on issue m	1,206	1,206
In the money options & rights m	17	17
Assumed capital raising dilution m		
Diluted shares on issue m	**1,223**	**1,223**
Net debt / (cash) (including raising) A$m	-337	-304
Equity value (risked, diluted) $m	811	765
Equity value (risked, diluted) $/sh	**$0.66/sh**	**$0.63/sh**
Current share price		$0.395/sh

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$0.63/sh (previously $0.66/sh)

The Mardie Salt and SOP project is tier-one in scale and transformational for BCI. The project is nearing final approvals and the commencement of full-scale development. 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 31 January 2022

Recommendation	Buy
Price	$0.395
Target (12 months)	$0.63

Table 4 - Financial summary

Date		**31/01/22**
Price	**A$/sh**	**0.40**
Target price	**A$/sh**	**0.63**

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PROFIT AND LOSS

Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e
Revenue	$m	77	160	84	72	104
Expenses	$m	(62)	(97)	(70)	(55)	(76)
EBITDA	$m	**15**	**63**	**(6)**	**17**	**28**
Depreciation & amortisation	$m	(6)	(7)	-	-	(16)
EBIT	$m	9	56	(6)	17	12
Net interest expense	$m	0	0	-	-	(27)
Profit before tax	$m	10	56	(6)	17	(14)
Tax expense	$m	-	-	-	-	-
NPAT (reported)	$m	**10**	**56**	**(6)**	**17**	**(14)**
NPAT (adjusted)	$m	**20**	**56**	**(6)**	**17**	**(14)**

CASH FLOW STATEMENT

Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e
OPERATING CASH FLOW						
Receipts from customers	$m	82	121	126	75	91
Payments to suppliers and employees	$m	(78)	(112)	(87)	(57)	(58)
Tax paid	$m	-	-	-	-	-
Net interest	$m	0	0	-	-	(27)
Other	$m	-	-	(20)	-	-
Operating cash flow	$m	**4**	**9**	**19**	**18**	**7**
INVESTING CASH FLOW						
Capex	$m	(7)	(17)	(144)	(342)	(352)
Disposal of assets	$m	11	-	-	-	-
Other	$m	-	0	-	-	-
Investing cash flow	$m	**3**	**(17)**	**(144)**	**(342)**	**(352)**
FINANCING CASH FLOW						
Debt proceeds/(repayments)	$m	-	-	-	531	225
Dividends paid	$m	-	-	-	-	-
Proceeds from share issues (net)	$m	-	46	250	-	-
Other	$m	-	(0)	-	-	-
Financing cash flow	**$m**	-	46	250	531	225
Change in cash	**$m**	**34**	**42**	**79**	**204**	**411**
Free cash flow	$m	8	(8)	(125)	(324)	(345)

BALANCE SHEET

Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e
ASSETS						
Cash	$m	42	79	204	411	291
Receivables	$m	16	56	15	12	25
Inventories	$m	-	-	-	-	-
Capital assets	$m	46	59	203	545	882
Other assets	$m	32	33	62	62	62
Total assets	**$m**	**136**	**228**	**484**	**1,030**	**1,259**
LIABILITIES						
Creditors	$m	18	38	20	18	36
Borrowings	$m	-	-	29	560	785
Provisions	$m	12	16	16	16	16
Other liabilities	$m	1	2	2	2	2
Total liabilities	**$m**	**32**	**55**	**67**	**596**	**839**
NET ASSETS	**$m**					
Share capital	$m	267	313	563	563	563
Reserves	$m	5	6	6	6	6
Accumulated losses	$m	(169)	(147)	(152)	(135)	(149)
Non-controlling interest	$m	-	-	-	-	-
SHAREHOLDER EQUITY	**$m**	**104**	**173**	**417**	**435**	**420**
Weighted average shares	m	399	548	901	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)	1.4	(1.2)
EPS growth (Acps)	%	52%	-19%	-115%	na	-184%
PER	x	8.0x	9.8x	-64.2x	27.8x	-33.5x
DPS	Ac/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	Ac/sh	2.0	(1.4)	(13.9)	(26.9)	(28.6)
FCF yield	%	5%	-4%	-35%	-68%	-72%
EV/EBITDA	x	11.5x	2.7x	-31.1x	10.0x	6.2x
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	(42)	(79)	(175)	149	494
Net debt / Equity	%	-40%	-46%	-42%	34%	118%
Net debt / Net debt + Equity	%	-66%	-85%	-72%	26%	54%
Net debt / EBITDA	x	-2.8x	-1.3x	31.6x	8.7x	17.7x
EBITDA /net int expense	x	35.0x	226.4x	0.0x	0.0x	-1.1x
PROFITABILITY RATIOS						
EBITDA margin	%	20%	40%	-7%	24%	27%
EBIT margin	%	12%	35%	-7%	24%	12%
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$/t	94	155	123	98	95
Salt price (CFR Asia)	US$/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	5.7	6.0	6.0
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	22	25	21
Mardie Salt & SOP	$m	-	-	-	-	15
Other	$m	(6)	(6)	(28)	(8)	(8)
Total	**$m**	**15**	**63**	**(6)**	**17**	**28**

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		$88m	
Value of core projects (risked)		**$508m**	
Other assets		$33m	
Corporate & admin		-$80m	
Enterprise value (risked)		$461m	
Net debt / (cash) (including raising)		-$304m	
Equity value of core projects (risked)		**$765m**	**$0.63/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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