BELL POTTER

2 March 2021

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BCI Minerals Ltd (BCI)

1H FY21: Outstanding half at Iron Valley

Recommendation
Buy (unchanged)
Price
$0.305
Target (12 months)
$0.50 (previously $0.48)

GICS Sector

Materials

Expected Return	
Capital growth	**64%**
Dividend yield	**0%**
Total expected return	**64%**
Company Data & Ratios	
Enterprise value	**$104m**
Market cap	**$183m**
Issued capital	**598m**
Free float	**71%**
Avg. daily val. (52wk)	**$134,238**
12 month price range	**$0.097-$0.35**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.30	0.25	0.15
Absolute (%)	1.7	24.5	100.7
Rel market (%)	2.0	23.1	99.4

Absolute Price

SOURCE: IRESS

Iron Valley supports Mardie 1H FY21 activities

BCI reported a strong 1H FY21 interim result with revenue of $53.0m up 32% on the prior corresponding period and broadly in line with our estimate (BPe $53.9m). Underlying EBITDA was 73% higher at $14.7m, given robust iron ore pricing in the half, and compares favourably with full year FY20 underlying EBITDA of $15.0m. Reported 1H FY21 EBITDA of $2.0m included $12.6m in Mardie Project pre-development expenses.

We have made no changes to BCI's operational activities and underlying earnings in this report. Changes to our EPS estimates relate to adjustments for expensed exploration and future capital management assumptions: FY21 now 2.5cps (previously 5.2cps), after adjusting for the expensed exploration; FY22 now 0.8cps (previously 1.7cps); and FY23 now 0.6cps (previously 0.7cps).

Mardie Project approaches FID; early works commenced

BCI had $78.5m cash at 31 December 2020 and strong cash flow being generated by the Iron Valley royalty-like earnings stream. The company is positioned to advance the Mardie Project through to a Final Investment Decision (FID), which BCI are targeting by Q2 CY21, for commencement of major construction activities in Q3 CY21. Early construction works at Mardie have already commenced.

Investment thesis: Buy, Target Price $0.50/sh

We have increased our BCI valuation and target price to $0.50/sh (previously $0.48/sh) as a result of the interim financial report.

BCI combines an iron ore royalty-like business with a large scale salt and fertiliser project. BCI's current EV is around 4x its 2021 iron ore EBITDA alone. The Mardie Salt and SOP Project has the potential to add significant value and has appeal to ESG concerned debt and equity investors. NAIF financing and BCI's supportive share register will mitigate some of the Mardie project's financing risks.

Earnings Forecast

Year ending 30 June	**2020a**	**2021e**	**2022e**	**2023e**
Sales (A$m)	77	105	71	68
EBITDA (A$m)	(4)	16	13	12
NPAT (reported) (A$m)	(10)	13	10	9
NPAT (adjusted) (A$m)	0	13	10	9
EPS (adjusted) (¢ps)	0.1	2.5	0.8	0.6
EPS growth (%)	-97%	2522%	-68%	-29%
PER (x)	322.6x	12.3x	38.6x	54.3x
FCF Yield (%)	6%	-13%	-32%	-62%
EV/EBITDA (x)	-24.0x	6.4x	8.0x	8.4x
Dividend (¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	-	-	-	-
ROE (%)	-9%	10%	3%	2%

SOURCE: BELL POTTER SECURITIES ESTIMATES

1H FY21: Outstanding half at Iron Valley

Table 1 - 1H FY21 result summary

	FY19 (actual)	1H FY20 (actual)	2H FY20 (actual)	FY20 (actual)	1H FY21 (actual)	PCP Change %	1H FY21 (BP est.)	Actual vs. BP est. %
Iron ore sold (wMt)	**7.4**	3.6	3.6	**7.2**	2.9	-19%	2.9	
Revenue $m	**54.2**	40.1	36.7	**76.8**	53.0	32%	53.9	-2%
EBITDA (underlying) $m	**4.5**	8.5	6.5	**15.0**	14.7	73%	14.7	0%
EBITDA $m	**-5.2**	-3.1	-1.2	**-4.3**	2.0	nm	14.7	-86%
EBIT $m	**-8.3**	-4.4	-5.8	**-10.2**	-0.1	nm	14.3	nm
NPAT (reported) $m	**-6.1**	-4.1	-5.7	**-9.8**	0.0	nm	14.3	nm
EPS cps	**3.26**	-1.03	1.12	**0.09**	0.01	nm	2.87	nm
Segment EBITDA								
Iron Valley	**12.3**	10.9	12.1	**23.0**	17.1	57%	17.2	-1%
Mardie	**-8.2**	-11.2	-7.5	**-18.7**	-12.6	nm		
Tenements & other	**12.3**	-2.9	6.9	**4.0**	-2.5	nm		
Total underlying	**16.4**	-3.2	11.5	**8.3**	2.0	nm		

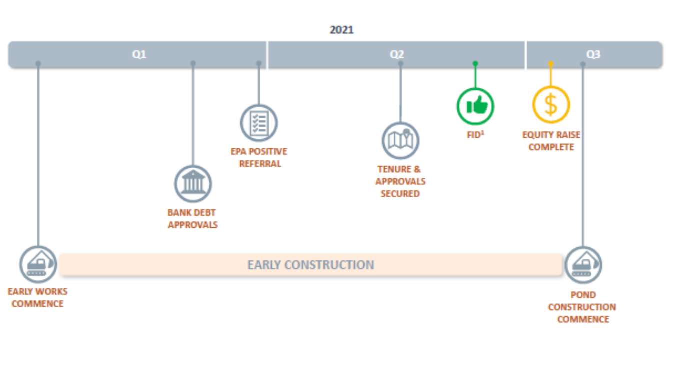
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Key observations from the interim result

- **Earnings:** 1H FY21 revenue of $53.0m was 32% higher than the prior corresponding period and broadly in line with our estimate (BPe $53.9m) from 2.9wmt of iron ore sold (previously disclosed). Underlying EBITDA, before exploration and evaluation related costs expensed during the period, was 73% higher at $14.7m and in line with our estimate (BPe $14.7m). The uplift in underlying EBITDA is reflective of robust iron ore pricing in the half year and almost exceeds the prior full year (FY20) underlying EBITDA.
- **Mardie development:** BCI achieved several key milestones during the half year, having secured:
    1. Conditional approval from the Northern Australia Infrastructure Facility (NAIF) for a $450m, 15 year debt financing facility;
    2. Major Project Status granted by the Australian Federal Government; and
    3. A $48m equity raising for procurement of long lead capital items and early work project development.

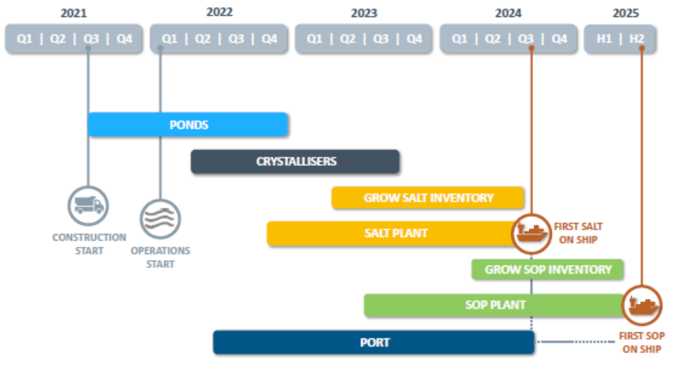
  BCI continues to advance final environmental approvals (expected in Q2 CY21), tenure, local engagement, formalisation of existing customer MoUs and final debt financing arrangements for a final investment decision by Q2 CY21. Major construction activities are scheduled to commence in Q3 CY21, subject to FID.
- **Balance sheet:** At 31 December 2020, BCI had $78.5m cash and no debt (previously disclosed).

Figure 1 - Near term activity schedule



SOURCE: BCI PRESENTATION

Figure 2 – Longer term schedule



SOURCE: BCI PRESENTATION

Changes to earnings estimates

Following BCI's 1H FY21 interim result, we have made the following adjustments to our financial model:

- Incorporated $12.7m in exploration and evaluation costs expensed in 1H FY21, relating mostly to pre-development activities at the Mardie Project.
- Adjustment to equity raising assumptions, impacting future number of shares on issue.

EPS changes outlined in the table below do not reflect any changes to BCI's underlying operating activities.

Table 2 - Changes to earnings estimates

	Previous			New			Change		
Year ending 30 Jun	**2021e**	**2022e**	**2023e**	**2021e**	**2022e**	**2023e**	**2021e**	**2022e**	**2023e**
Production (wmt)	6.5	7.6	7.6	**6.5**	**7.6**	**7.6**	0%	0%	0%
Sales (A$m)	106	71	68	**105**	**71**	**68**	-1%	0%	0%
EBITDA (A$m)	29	13	12	**16**	**13**	**12**	-44%	0%	0%
NPAT (reported) (A$m)	28	10	9	**13**	**10**	**9**	-52%	0%	0%
NPAT (adjusted) (A$m)	28	10	9	**13**	**10**	**9**	-52%	0%	0%
EPS (adjusted) (¢ps)	5.2	1.7	0.7	**2.5**	**0.8**	**0.6**	-52%	-53%	-21%
Dividend (¢ps)	-	-	-	**-**	**-**	**-**	0%	0%	0%
Valuation ($/sh)	0.48			**0.50**			4%		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Risked valuation summary

The table below outlines our BCI valuation. Our revised target price is $0.50/sh (previously $0.48/sh) and our Buy recommendation is unchanged.

Table 3 - Risked valuation summary

Shares & rights on issue m		**611m**	
Valuation		**A$m**	**A$/sh**
Mardie Salt & Potash project (unrisked)	$188m		
Risk discount to account for project stage	15%		
Mardie Salt & Potash project (risked)		$160m	$0.26
Iron Valley agreement		$93m	$0.15
Value of core projects (risked)		**$252m**	**$0.41**
Corporate & admin		-$25m	($0.04)
Enterprise value (risked)		**$227m**	**$0.37**
Net debt / (cash)		-$79m	($0.13)
Equity value of core projects (risked)		**$306m**	**$0.50**
Other projects (risked)		$37m	$0.06
Tax losses (present value)		$40m	$0.07
Equity value of all assets (risked)		**$383m**	**$0.63**

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, Target Price $0.50/sh

We have increased our BCI valuation and target price to $0.50/sh (previously $0.48/sh) as a result of the interim financial report.

BCI combines an iron ore royalty-like business with a large scale salt and fertiliser project. BCI's current EV is around 4x its 2021 iron ore EBITDA alone. The Mardie Salt and SOP Project has the potential to add significant value and has appeal to ESG concerned debt and equity investors. NAIF financing and BCI's supportive share register will mitigate some of the Mardie project's financing risks.

Valuation methodology

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

- Mardie Salt & SOP project, with 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 2 March 2021

Recommendation	Buy
Price	$0.305
Target (12 months)	$0.50

Table 4 - Financial summary

Date		2/03/21
Price	A$/sh	0.31
Target price	A$/sh	0.50

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PROFIT AND LOSS

Year ending 30 June	Unit	2019a	2020a	2021e	2022e	2023e
Revenue	$m	54	77	105	71	68
Expenses	$m	(59)	(81)	(89)	(58)	(56)
EBITDA	$m	**(5)**	**(4)**	**16**	**13**	**12**
Depreciation & amortisation	$m	(3)	(6)	(3)	(3)	(3)
EBIT	$m	(8)	(10)	13	10	9
Net interest expense	$m	1	0	0	-	-
Profit before tax	$m	(8)	(10)	13	10	9
Tax expense	$m	2	-	-	-	-
NPAT (reported)	$m	**(6)**	**(10)**	**13**	**10**	**9**
NPAT (adjusted)	$m	**13**	**0**	**13**	**10**	**9**

CASH FLOW STATEMENT

Year ending 30 June	Unit	2019a	2020a	2021e	2022e	2023e
OPERATING CASH FLOW						
Receipts from customers	$m	40	82	98	78	68
Payments to suppliers and employees	$m	(48)	(78)	(83)	(64)	(56)
Tax paid	$m	2	-	-	-	-
Net interest	$m	1	0	0	-	-
Other	$m	-	-	(0)	-	-
Operating cash flow	$m	**(6)**	**4**	**15**	**14**	**12**
INVESTING CASH FLOW						
Capex	$m	(0)	(7)	(33)	(139)	(317)
Disposal of assets	$m	27	11	0	-	-
Other	$m	(0)	-	(3)	-	-
Investing cash flow	$m	**27**	**3**	**(36)**	**(139)**	**(317)**
FINANCING CASH FLOW						
Debt proceeds/(repayments)	$m	-	-	-	100	500
Dividends paid	$m	-	-	-	-	-
Proceeds from share issues (net)	$m	-	-	46	288	-
Other	$m	-	-	(0)	-	-
Financing cash flow	**$m**	-	-	46	388	500
Change in cash	**$m**	**13**	**34**	**42**	**67**	**330**
Free cash flow	$m	21	8	(20)	(125)	(305)

BALANCE SHEET

Year ending 30 June	Unit	2019a	2020a	2021e	2022e	2023e
ASSETS						
Cash	$m	34	42	67	330	526
Receivables	$m	22	16	23	15	15
Inventories	$m	-	-	-	-	-
Capital assets	$m	42	46	79	215	529
Other assets	$m	32	32	32	32	32
Total assets	**$m**	**130**	**136**	**201**	**593**	**1,102**
LIABILITIES						
Creditors	$m	18	18	23	17	16
Borrowings	$m	-	-	-	100	600
Provisions	$m	8	12	13	13	13
Other liabilities	$m	0	1	2	2	2
Total liabilities	**$m**	**27**	**32**	**38**	**131**	**631**
NET ASSETS	**$m**					
Share capital	$m	267	267	313	601	601
Reserves	$m	5	5	6	6	6
Accumulated losses	$m	(169)	(169)	(155)	(145)	(136)
Non-controlling interest	$m	-	-	-	-	-
SHAREHOLDER EQUITY	**$m**	**104**	**104**	**163**	**461**	**470**
Weighted average shares	m	397	399	532	1,265	1,598

FINANCIAL RATIOS

Year ending 30 June	Unit	2019a	2020a	2021e	2022e	2023e
VALUATION						
EPS	Ac/sh	3.3	0.1	2.5	0.8	0.6
EPS growth (Acps)	%	0%	-97%	2522%	-68%	-29%
PER	x	9.4x	322.6x	12.3x	38.6x	54.3x
DPS	Ac/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	Ac/sh	5.2	2.0	(3.8)	(9.9)	(19.1)
FCF yield	%	17%	6%	-13%	-32%	-62%
EV/EBITDA	x	-20.2x	-24.0x	6.4x	8.0x	8.4x
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	(34)	(42)	(67)	(230)	74
Net debt / Equity	%	-33%	-40%	-41%	-50%	16%
Net debt / Net debt + Equity	%	-48%	-66%	-69%	-99%	14%
Net debt / EBITDA	x	6.5x	9.6x	-4.2x	-17.7x	6.0x
EBITDA /net int expense	x	-8.2x	-10.1x	110.5x	0.0x	0.0x
PROFITABILITY RATIOS						
EBITDA margin	%	-10%	-6%	15%	18%	18%
EBIT margin	%	-15%	-13%	12%	14%	13%
Return on assets	%	-	-7%	8%	3%	1%
Return on equity	%	-	-9%	10%	3%	2%

ASSUMPTIONS - Prices (nominal)

Year ending 30 June	Unit	2019e	2020e	2021e	2022e	2023e
Iron ore price (62% CFR China)	US$/t	80	94	118	88	85
Salt price (CFR Asia)	US$/t			38	39	40
SOP price (FOB Australia)	US$/t			436	430	438
FX	US$/A$	0.72	0.67	0.68	0.71	0.73

ASSUMPTIONS - Sales (equity)

Year ending 30 June	Unit	2019e	2020e	2021e	2022e	2023e
Iron ore sales	Mt	7.4	7.2	6.5	7.6	7.6
Salt sales	Mt	-	-	-	-	-
SOP sales	kt	-	-	-	-	-

SEGMENT EBITDA

Year ending 30 June	Unit	2019a	2020a	2021e	2022e	2023e
Iron Valley	$m	10	21	34	18	17
Mardie Salt & SOP	$m	-	-	-	-	-
Other	$m	(15)	(25)	(18)	(5)	(5)
Total	**$m**	**(5)**	**(4)**	**16**	**13**	**12**

VALUATION

Shares on issue			598
Shares and rights on issue			611
Valuation		**A$m**	**A$/sh**
Mardie Salt & Potash project (unrisked)	$188m		
Risk discount to account for project stage	15%		
Mardie Salt & Potash project (risked)		$160m	0.26
Iron Valley agreement		$93m	0.15
Value of core projects (risked)		**$252m**	**0.41**
Corporate & admin		-$25m	(0.04)
Enterprise value (risked)		$227m	0.37
Net debt / (cash)		-$79m	(0.13)
Equity value of core projects (risked)		**$306m**	**0.50**
Other projects (risked)		$37m	0.06
Tax losses (present value)		$40m	0.07
Equity value of all assets (risked)		$383m	0.63

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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Associate, Joseph House, has a long position in BCI.

Disclosure: Bell Potter Securities acted as joint lead manager for BCI's $48m equity raising in September 2020 and received fees for that service.

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