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BCI Minerals Ltd (BCI)

Q2 FY21: Record quarter for Iron Valley

Recommendation
Buy (unchanged)
Price
$0.30
Target (12 months)
$0.48 (previously $0.43)

GICS Sector

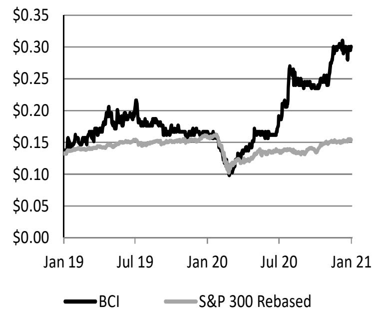
Materials

Expected Return	
Capital growth	60%
Dividend yield	0%
Total expected return	60%
Company Data & Ratios	
Enterprise value	$101m
Market cap	$180m
Issued capital	598m
Free float	71%
Avg. daily val. (52wk)	$119,143
12 month price range	$0.097-$0.31

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.30	0.24	0.17
Absolute (%)	0.00	25.00	80.00
Rel market (%)	-1.85	14.84	83.92

Absolute Price



SOURCE: IRESS

Record Iron Valley EBITDA on iron ore price strength

BCI reported record Iron Valley EBITDA of $10m for the December 2020 quarter, bringing the project's 1H FY21 result to $17.1m. The lift in earnings was mostly driven by higher iron ore prices. Iron Valley shipped 1.6Mt during the quarter, taking 1H FY21 shipments to 2.9Mt (1H FY20 3.60Mt).

At 31 December 2020, BCI had cash of $78.5m ($55.6m at 30 September 2020) and no debt. During the quarter, the company completed a $48m entitlement offer to fund early construction works at the Mardie Salt and Potash project.

EPS changes in this report are: FY21 +39%; FY22 now 1.7cps (previously 1.0cps); and FY23 now 0.7cps (previously 0.4cps).

Mardie project progresses; NAIF tick the quarter's highlight

BCI continue to progress Mardie through approvals, early works and financing for a final investment decision (FID) by mid-CY21. As previously reported, the project has received conditional approval from the Commonwealth Government's Northern Australia Infrastructure Facility for a $450m, 15-year tenor loan. We now expect BCI to progress commercial bank term sheets and salt and potash offtake MoUs to binding arrangements. BCI expect final Ministerial approval for Mardie by Q2 CY21.

Investment thesis: Buy, Target Price $0.48/sh

We have increased our BCI valuation and target price to $0.48/sh (previously $0.43/sh) as a result of this 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 current iron ore EBITDA alone. The Mardie Salt and SOP Project has the potential to add significant value and is suited 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.

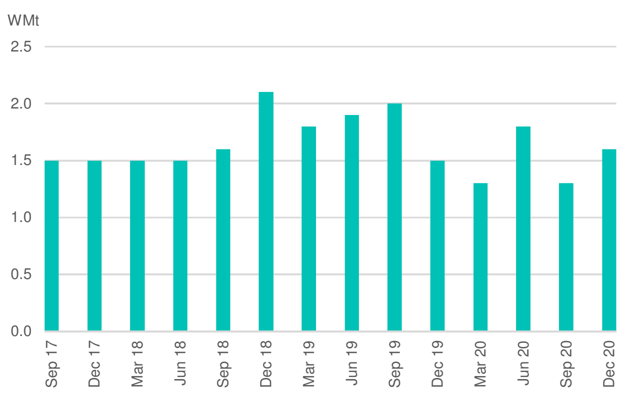
Earnings Forecast

Year ending 30 June	2020a	2021e	2022e	2023e
Sales (A$m)	77	106	71	68
EBITDA (A$m)	(4)	29	13	12
NPAT (reported) (A$m)	(10)	28	10	9
NPAT (adjusted) (A$m)	0	28	10	9
EPS (adjusted) (¢ps)	0.1	5.2	1.7	0.7
EPS growth (%)	-97%	5371%	-68%	-58%
PER (x)	317.3x	5.8x	17.9x	42.2x
FCF Yield (%)	7%	-8%	-70%	-80%
EV/EBITDA (x)	-23.3x	3.5x	7.7x	8.2x
Dividend (¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	-	-	-	-
ROE (%)	-9%	20%	5%	3%

SOURCE: BELL POTTER SECURITIES ESTIMATES

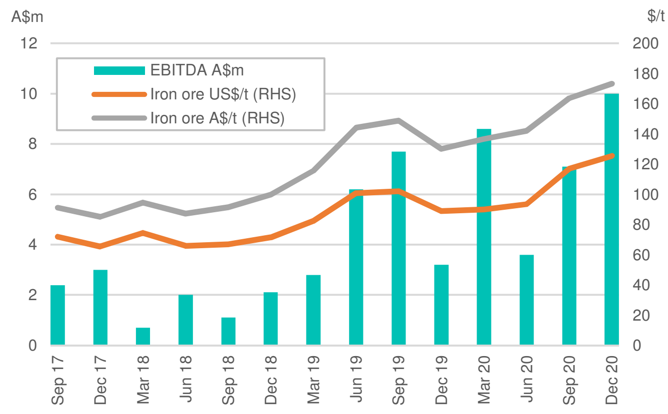
Q2 FY21: Record quarter for Iron Valley

Figure 1 - Iron ore shipments (M wmt)



SOURCE: BCI

Figure 2 - Iron Valley EBITDA (A$m)



SOURCE: BCI

Key observations from the quarterly

- Iron Valley generated record quarterly EBITDA of $10m (up 41% quarter on quarter) from shipments of 1.6Mt (up 23% quarter on quarter). 1H FY21 EBITDA from Iron Valley is now $17.1m from 2.9Mt shipped; by comparison, the asset generated $23m EBITDA in FY20.
- The increased EBITDA was mostly driven by higher iron ore pricing. Benchmark iron ore prices averaged around US$130/t (A$182/t) in the December 2020 quarter, up from US$117/t (A$164/t) in the September 2020 quarter.
- Spot iron ore prices have remained strong into 2021, averaging US$170/t (A$220/t) quarter to date, and are currently around US$165/t (A$213/t).

Mardie development activities continue

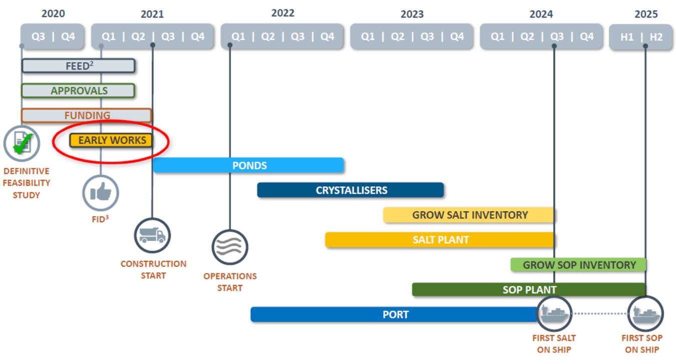
Progress on the Mardie Salt and Potash Project had largely been previously reported. Ministerial approval and FID is on track for Q2 CY21 and for full-scale construction to commence in mid-2021. Recent activities include:

- **NAIF conditionally approve $450m loan:** The Commonwealth Government's Northern Australia Infrastructure Facility (NAIF) has provided conditional approval for a $450m, 15 year tenor loan facility. Conditions include:
    - Conclusion of the Federal Minister's consideration period as outlined in the NAIF Act 2016;
    - Finalisation of the State Government's consideration of the Project and its agreement for the approved funds to be advanced;
    - Completing other debt and equity funding arrangements;
    - Securing tenure, approvals, permits and agreements required to construct and operate the Project;
    - Entering into binding offtake contracts for early production years before first loan draw down; and
    - Other customary conditions precedent to financial close and draw down.
- **Mardie early work activities progress:** Work on local infrastructure including access roads, site communication, fuel storage and water bores was initiated. The accommodation village has now been upsized to 80 beds. Construction of a large-scale trial pond is scheduled to commence early in the June 2021 quarter.
- **Detailed design and optimisation:** Project optimisation remained ongoing with further evaluation of project layout and production rates, execution schedules, upfront capital costs and operating costs.
- **Evaporation and Processing Trial:** A pilot program is underway to process 20 tonnes of high purity salt in Q1 CY21. A concurrent SOP pilot program is scheduled for Q2 2021.
- **Tenure and Approvals:** BCI continues to work with the Western Australian Environmental Protection Authority through the environmental approvals process. Final Ministerial approval is expected by Q2 2021.

Figure 3 - Indicative early construction works timeline

SOURCE: BCI PRESENTATION

Figure 4 - Indicative Mardie Project timeline



SOURCE: BCI PRESENTATION

Earnings changes & valuation summary

Changes to earnings estimates

Following BCI's December 2020 quarterly report, we have made the following adjustments to our financial model:

- Upgraded our iron ore price forecasts from US$85/t to US$110/t in 2H FY21 and US$74/t to US$88/t in FY22. Our long run iron ore price is raised from US$75/t to US$85/t.
- Adjusted our currency assumptions from US$0.68/A$ to US$0.75/A$ in FY21 and US$0.71/A$ to US$0.73/A$ in FY22.
- Made minor adjustments to our Iron Valley royalty assumptions.

The upgrade in our iron ore price is partially offset by our higher FX forecasts, the net result outlined in the following table.

Table 1 - Changes to earnings estimates

	Previous			New			Change		
Year ending 30 Jun	**2021e**	**2022e**	**2023e**	**2021e**	**2022e**	**2023e**	**2021e**	**2022e**	**2023e**
Production (wmt)	6.7	7.6	7.6	6.5	7.6	7.6	-3%	0%	0%
Sales (A$m)	79	52	50	106	71	68	34%	35%	37%
EBITDA (A$m)	21	8	8	29	13	12	38%	56%	61%
NPAT (reported) (A$m)	20	6	4	28	10	9	39%	73%	103%
NPAT (adjusted) (A$m)	20	6	4	28	10	9	39%	73%	103%
EPS (adjusted) (¢ps)	3.7	1.0	0.4	5.2	1.7	0.7	39%	73%	103%
Dividend (¢ps)	-	-	-	-	-	-	0%	0%	0%
Valuation ($/sh)	0.43			0.48			12%		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Risked valuation summary

The table below outlines our BCI valuation. The uplift in valuation is driven by stronger earnings assumptions for BCI's Iron Valley agreement, given the adjustments in our iron ore price forecasts. Our revised target price is $0.48 per share (previously $0.43 per share) and our buy recommendation remains unchanged.

Table 2 - Risked valuation summary

		Previous		New	
Shares & rights on issue m		**611m**		**611m**	
Valuation		**A$m**	**A$/sh**	**A$m**	**A$/sh**
Mardie Salt & Potash project (unrisked)	$179m				
Risk discount to account for project stage	15%				
Mardie Salt & Potash project (risked)		$152m	$0.25	$152m	$0.25
Iron Valley agreement		$55m	$0.09	$89m	$0.15
Value of core projects (risked)		**$207m**	**$0.34**	**$241m**	**$0.39**
Corporate & admin		-$25m	($0.04)	-$25m	($0.04)
Enterprise value (risked)		**$182m**	**$0.30**	**$216m**	**$0.35**
Net debt / (cash)		-$81m	($0.13)	-$79m	($0.13)
Equity value of core projects (risked)		**$263m**	**$0.43**	**$294m**	**$0.48**
Other projects (risked)		$33m	$0.05	$33m	$0.05
Tax losses (present value)		$35m	$0.06	$39m	$0.06
Equity value of all assets (risked)		**$331m**	**$0.54**	**$366m**	**$0.60**

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 $0.48/sh

We have increased our BCI valuation and target price to $0.48/sh (previously $0.43/sh) as a result of this 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 current iron ore EBITDA alone. The Mardie Salt and SOP Project has the potential to add significant value and is suited 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 28 January 2021

Recommendation	Buy
Price	$0.30
Target (12 months)	$0.48

Table 3 - Financial summary

Date		**28/01/21**
Price	**A$/sh**	**0.30**
Target price	**A$/sh**	**0.48**

Bell Potter Securities
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PROFIT AND LOSS

Year ending 30 June	Unit	2019a	2020a	2021e	2022e	2023e
Revenue	$m	54	77	106	71	68
Expenses	$m	(59)	(81)	(77)	(58)	(56)
EBITDA	$m	**(5)**	**(4)**	**29**	**13**	**12**
Depreciation & amortisation	$m	(3)	(6)	(1)	(3)	(3)
EBIT	$m	(8)	(10)	28	10	9
Net interest expense	$m	1	0	-	-	-
Profit before tax	$m	(8)	(10)	28	10	9
Tax expense	$m	2	-	-	-	-
NPAT (reported)	$m	**(6)**	**(10)**	**28**	**10**	**9**
NPAT (adjusted)	$m	**13**	**0**	**28**	**10**	**9**

CASH FLOW STATEMENT

Year ending 30 June	Unit	2019a	2020a	2021e	2022e	2023e
OPERATING CASH FLOW						
Receipts from customers	$m	40	82	99	78	68
Payments to suppliers and employees	$m	(48)	(78)	(72)	(64)	(56)
Tax paid	$m	2	-	-	-	-
Net interest	$m	1	0	-	-	-
Other	$m	-	-	-	-	-
Operating cash flow	$m	**(6)**	**4**	**27**	**14**	**12**
INVESTING CASH FLOW						
Capex	$m	(0)	(7)	(40)	(139)	(317)
Disposal of assets	$m	27	11	-	-	-
Other	$m	(0)	-	-	-	-
Investing cash flow	$m	**27**	**3**	**(40)**	**(139)**	**(317)**
FINANCING CASH FLOW						
Debt proceeds/(repayments)	$m	-	-	-	100	500
Dividends paid	$m	-	-	-	-	-
Proceeds from share issues (net)	$m	-	-	46	-	192
Other	$m	-	-	-	-	-
Financing cash flow	**$m**	-	-	46	100	692
Change in cash	**$m**	**13**	**34**	**42**	**75**	**50**
Free cash flow	$m	21	8	(13)	(125)	(305)

BALANCE SHEET

Year ending 30 June	Unit	2019a	2020a	2021e	2022e	2023e
ASSETS						
Cash	$m	34	42	75	50	437
Receivables	$m	22	16	23	15	15
Inventories	$m	-	-	-	-	-
Capital assets	$m	42	46	84	221	534
Other assets	$m	32	32	32	32	32
Total assets	**$m**	**130**	**136**	**214**	**318**	**1,019**
LIABILITIES						
Creditors	$m	18	18	23	17	16
Borrowings	$m	-	-	-	100	600
Provisions	$m	8	12	12	12	12
Other liabilities	$m	0	1	1	1	1
Total liabilities	**$m**	**27**	**32**	**37**	**130**	**630**
NET ASSETS	**$m**					
Share capital	$m	267	267	313	313	505
Reserves	$m	5	5	5	5	5
Accumulated losses	$m	(169)	(169)	(141)	(131)	(122)
Non-controlling interest	$m	-	-	-	-	-
SHAREHOLDER EQUITY	**$m**	**104**	**104**	**178**	**188**	**389**
Weighted average shares	m	397	399	532	598	1,265

FINANCIAL RATIOS

Year ending 30 June	Unit	2019a	2020a	2021e	2022e	2023e
VALUATION						
EPS	Ac/sh	3.3	0.1	5.2	1.7	0.7
EPS growth (Acps)	%	0%	-97%	5371%	-68%	-58%
PER	x	9.2x	317.3x	5.8x	17.9x	42.2x
DPS	Ac/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	Ac/sh	5.2	2.0	(2.4)	(20.9)	(24.1)
FCF yield	%	17%	7%	-8%	-70%	-80%
EV/EBITDA	x	-19.6x	-23.3x	3.5x	7.7x	8.2x
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	(34)	(42)	(75)	50	163
Net debt / Equity	%	-33%	-40%	-42%	27%	42%
Net debt / Net debt + Equity	%	-48%	-66%	-73%	21%	30%
Net debt / EBITDA	x	6.5x	9.6x	-2.6x	3.8x	13.1x
EBITDA /net int expense	x	-8.2x	-10.1x	0.0x	0.0x	0.0x
PROFITABILITY RATIOS						
EBITDA margin	%	-10%	-6%	27%	18%	18%
EBIT margin	%	-15%	-13%	26%	14%	13%
Return on assets	%	-	-7%	16%	4%	1%
Return on equity	%	-	-9%	20%	5%	3%

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	$m	(15)	(25)	(5)	(5)	(5)
Total	**$m**	**(5)**	**(4)**	**29**	**13**	**12**

VALUATION

Shares on issue			598
Shares and rights on issue			611
Valuation		**A$m**	**A$/sh**
Mardie Salt & Potash project (unrisked)	$179m		
Risk discount to account for project stage	15%		
Mardie Salt & Potash project (risked)		$152m	0.25
Iron Valley agreement		$89m	0.15
Value of core projects (risked)		**$241m**	**0.39**
Corporate & admin		-$25m	(0.04)
Enterprise value (risked)		$216m	0.35
Net debt / (cash)		-$79m	(0.13)
Equity value of core projects (risked)		**$294m**	**0.48**
Other projects (risked)		$33m	0.05
Tax losses (present value)		$39m	0.06
Equity value of all assets (risked)		$366m	0.60

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

ANALYST CERTIFICATION

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.