Canaccord Genuity
Capital Markets

Australian Equity Research
8 June 2021

Raising Target Price

BCI Minerals Limited

Bulk Materials - Producer

Rating	Price Target
SPECULATIVE BUY *unchanged*	**A$0.70↑** *from A$0.60*
BCI-ASX	Price **A$0.43**

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Mardie site visit — it's big and it's salty

BCI is in a privileged financial position, in our view, with a cash balance of $100mn and significant iron ore related cash inflows (we estimate ~$28mn EBITDA for the JunQ). Our recent site visit to Mardie reinforced that BCI is using this position to good effect with early works well underway (40 people onsite, civils commenced) and long lead time items ordered. We upgrade our price target to $0.70 (from $0.60) on increased iron ore pricing assumptions and retain our SPECULATIVE BUY rating. The capital burden ($913mn upfront) is high and so is the project gestation (~3.5 years), but the economics of this highly strategic project are compelling, in our view.

Ticking boxes - climate, topography and geology

The Pilbara coastline already plays host to some of Australia's largest salt operations, with good reason, as it benefits from the following:

1. A 'Grassland climate', meaning it's hot year-round with a summer drought. Based on the analysis of monthly evaporation, rainfall and temperature data at the Dampier and Learmonth weather stations, conditions are considered ideal for solar evaporation, with results indicating a net evaporation rate of 2,970mm per annum.
2. Flat topography with a low permeability clay layer that extends across the planned pond footprint, which reduces the amount of product lost to seepage whilst also eliminating the need to line the ponds. Material surrounding the project is also suitable for the construction of a low permeability sea wall which eliminates the need to transport suitable material up to site.

Multigenerational tier 1 potential

Our unrisked NPV10 of Mardie stands at $416mn (we risk this at 50% for our valuation) with an IRR of 14%, eight-year payback, A$220mn project EBITDA (salt & SOP) and 60+ year mine life. Given similar operations are trading on 10-12x EV/EBITDA, BCI, with its low capital intensity, and bottom quartile operating costs (after SOP by-product credits) remains highly undervalued, in our view.

Working towards ministerial approval

BCI recently hosted the EPA board for a site visit and the public review period for the Mardie Environmental Review Document ended in September. With an estimated $3bn of regional economic benefits, 99% renewable energy driving the production process and positive engagement with traditional owners we do not see any showstoppers for a positive EPA assessment and subsequent ministerial approval. Approvals remain on the critical path for a mid-year FID.

Salt market tailwinds...

After hitting a low of sub-US$35/t (CIF) in 2019, the salt price is grinding higher with the most recent prices in the US$42/t range as demand recovers (see Figure 14). With few material greenfield projects proposed and existing producers under pressure in certain regions we continue to see a material market window for Mardie.

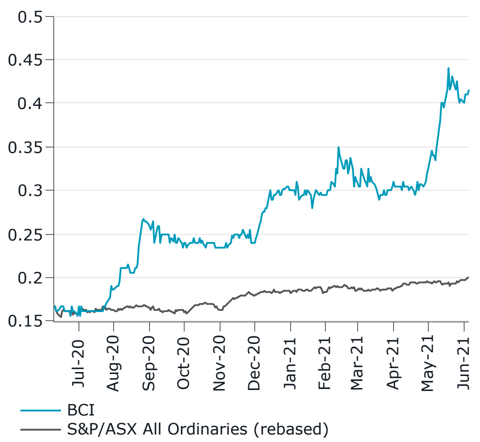
...and even stronger tailwinds in iron ore

Iron ore prices continue to benefit from record Chinese steel production and concerns around global supply constraints exacerbated by speculative activity on the Dalian Commodity Exchange. Chinese steel production increased by 7% YoY, driven largely by Chinese stimulus which resulted in iron ore prices reaching US$237/t. As a result, we have updated our near-term and long-term pricing assumptions to US$150/t and US $90/t respectively (prior US$130/t and US$80/t), which increases our valuation of the Iron Valley royalty to A$148m. A conservative valuation when compared to similar iron ore royalty companies (e.g. Labrador Iron Ore Royalty (LIF-TSX | Not Rated) which are currently trading on over 5X EV/EBITDA albeit with a larger resource base.

Market Data

52-Week Range (A$) :	0.15 - 0.45
Avg Daily Vol (000s) :	2,166
Market Cap (A$M) :	256.7
Shares Out. (M) :	597.0
Dividend /Shr (A$) :	0.00
Dividend Yield (%) :	0.0
Net Debt (Cash) (A$M) :	(81.5)
Enterprise Value (A$M) :	239

FYE Jun	2020A	2021E	2022E	2023E
EBITDA (A$M)	3.6	41.2↑	44.7↑	15.8↑
Previous	-	*2.8*	*4.0*	*7.5*
Net Income (A$M)	0.4	27.8↑	38.0↑	11.1↑
Previous	-	*(1.5)*	*3.4*	*5.3*



Source: FactSet

Priced as of close of business 7 June 2021

BCI Minerals Ltd is a resource company, which engages in the exploration and development of assets in the Pilbara region of Western Australia. It operates through the following segments: Iron Valley, Mardie, Buckland and Other. The Other segment include corporate and other assets. The company was founded in 2006 and is headquartered in West Perth, Australia.

Canaccord Genuity (Australia) Limited has received a fee as Joint Lead Manager to the BCI Minerals Limited Capital Raising announced 14 September 2020.

Figure 1: Financial summary

FY Jun 30	2019A	2020A	2021E	2022E	2023E
PROFIT & LOSS (A$mn)					
Revenue	54	77	160	150	98
Operational Costs & Royalty	-42	-53	-102	-91	-68
Other Income	20	11	2	2	2
Business Devt & Expl	-10	-19	-13	-10	-10
Corporate & Other	-8	-11	-6	-7	-7
EBITDA	**14**	**4**	**41**	**45**	**16**
DD&A	-3	-3	-5	0	0
Other	0	0	0	0	0
EBIT	**11**	**0**	**36**	**45**	**16**
Net Financing	0	0	0	0	0
NPBT	**11**	**0**	**36**	**45**	**16**
Tax	2	0	-9	-7	-5
Normalised NPAT	**13**	**0**	**28**	**38**	**11**
Sig Items, Discon Ops & Mins	0	0	0	0	0
Reported NPAT	**13**	**0**	**28**	**38**	**11**
Effective income tax rate	-13%	0%	24%	15%	30%
CASHFLOW (A$mn)					
Cash receipts	40	82	160	150	98
Payments to suppliers	-48	-78	-121	-108	-85
Interest received	1	0	0	0	0
Interest paid	0	0	0	0	0
Other	2	0	-65	31	20
Operating Cashflow	**-6**	**4**	**-26**	**73**	**33**
Payments for PP&E	0	0	0	0	0
Payments for Development	0	0	-33	-236	-313
Payments for Exploration	-3	-10	-10	-10	-10
Asset Sales / (Purchases)	27	0	0	0	0
Other	3	14	0	0	0
Investing Cashflow	**27**	**3**	**-43**	**-246**	**-323**
Share Issuance / (Buyback)	0	0	48	300	0
Drawdown / (Repayment) of Debt	0	0	0	0	156
Dividends	0	0	0	0	0
Other	0	0	-3	0	0
Financing Cashflow	**0**	**0**	**45**	**300**	**156**
Surplus / Defecit	21	8	-24	127	-134
BALANCE SHEET (A$mn)					
Current Assets	64	70	110	207	53
Non-Current Assets	79	86	124	370	694
Total Assets	**143**	**156**	**235**	**577**	**747**
Current Liabilities	18	19	19	19	26
Non-Current Liabilities	8	13	12	12	160
Total Liabilities	**27**	**32**	**31**	**31**	**187**
Net Assets	**117**	**124**	**204**	**546**	**560**
Total Cash	34	42	17	145	10
Total Debt	0	1	0	0	156
Net Debt	**-34**	**-41**	**-17**	**-145**	**145**

	2019	2020	2021E	2022E	2023E
KEY ASSUMPTIONS					
Salt (US$/tonne)	30	30	30	30	38
SOP (US$/tonne)	500	500	500	525	509
Iron ore fines (US$/tonne)	75	90	155	130	102
Iron ore lump (US$/tonne)	93	105	165	152	112
A$/US$	0.71	0.72	0.76	0.75	0.75
PRODUCTION					
Salt (kt)	0	0	0	0	0
SOP (kt)	0	0	0	0	0
RESERVES AND RESOURCES					
Iron Valley Resources		182.0Mt at 58.0% Fe			
Iron Valley Reserves		82.3Mt at 58.3% Fe			
PER SHARE DATA					
Average Shares (Diluted, M)	199	397	689	1347	1347
EOP Shares (Diluted, mn)	397	397	1347	1347	1347
Normalised EPS (A¢/sh)	6.5	0.1	4.0	2.8	0.8
CF PS (A¢/sh)	-3.1	1.1	-3.8	5.4	2.5
FCF PS (A¢/sh)	10.4	2.0	-10.0	-12.8	-21.5
RATIOS					
Dividend Yield	0%	0%	0%	0%	0%
PE	4.6	313.5	7.4	10.6	36.5
PCF (Debt Adj)	n/a	27.2	n/a	5.5	12.1
EV / EBITDA	6.1	22.0	9.4	5.8	34.8
Gearing (ND / ND + E)	n/a	n/a	n/a	n/a	21%
Net Debt / EBITDA	-2.4x	-11.5x	-0.4x	-3x	9x
Interest Cover	0.0x	12x	1223x	0.0x	0.0x
ROE (Reported Profit / Av Equity)	22%	0%	17%	10%	2%
ROIC	16%	0%	15%	9%	2%
ROACE	13%	0%	14%	8%	2%
FCF Yield	35%	7%	-33%	-43%	-72%
DIVIDEND AND FRANKING					
Dividend (A¢/sh)	0	0	0	0	0
Payout ratio	0%	0%	0%	0%	0%
Franking Balance (A$mn)	0	0	0	0	0
VALUATION		**Risked**		**Unrisked**	
Iron Valley		0.25		0.25	
Mardie		0.35		0.70	
EV adjustments		0.11		0.11	
TOTAL		**0.70**		**1.05**	
PREMIUM/(DISCOUNT)		0.0			
PRICE TARGET		**0.70**			

Source: Company reports, Canaccord Genuity estimates

Big, hot and salty

The recent site visit reaffirmed that it is all systems go for Mardie with the 80-person camp established, earthworks underway and the demonstration ponds producing salt and SOP salts.

With a concessional $450mn 15-year NAIF facility conditionally approved, the company's focus has shifted to commercial debt providers with a separate well-attended site visit conducted last week. We continue to believe that given the structure of the NAIF facility, which will take a higher level of tail risk, Mardie offers an attractive risk profile and it should be able to secure ~$250mn in senior commercial debt proposed.

Figure 2: The benefits of this large regional project are clearly spelt out in blue and white

Source: Canaccord Genuity

Figure 3: An 80-person camp has been established with 40 people currently onsite

Source: Canaccord Genuity

The Mardie site has a number of competitive advantages

Climate

The Pilbara coast is considered a 'Grassland climate', meaning it's hot year-round with a summer drought. Based on the analysis of monthly evaporation, rainfall and temperature data at the Dampier and Learmonth weather stations, conditions are considered ideal for solar evaporation, with results indicating a net evaporation rate of 2,970mm per annum.

Coastal setting

Mardie is located 3-5km inland from the coast, allowing for easy access via two key inlets to an inexhaustible resource of stable quality seawater. The coastal setting also eliminates haulage costs to an onsite Port facility ideally situated for low cost shipping to Asian markets.

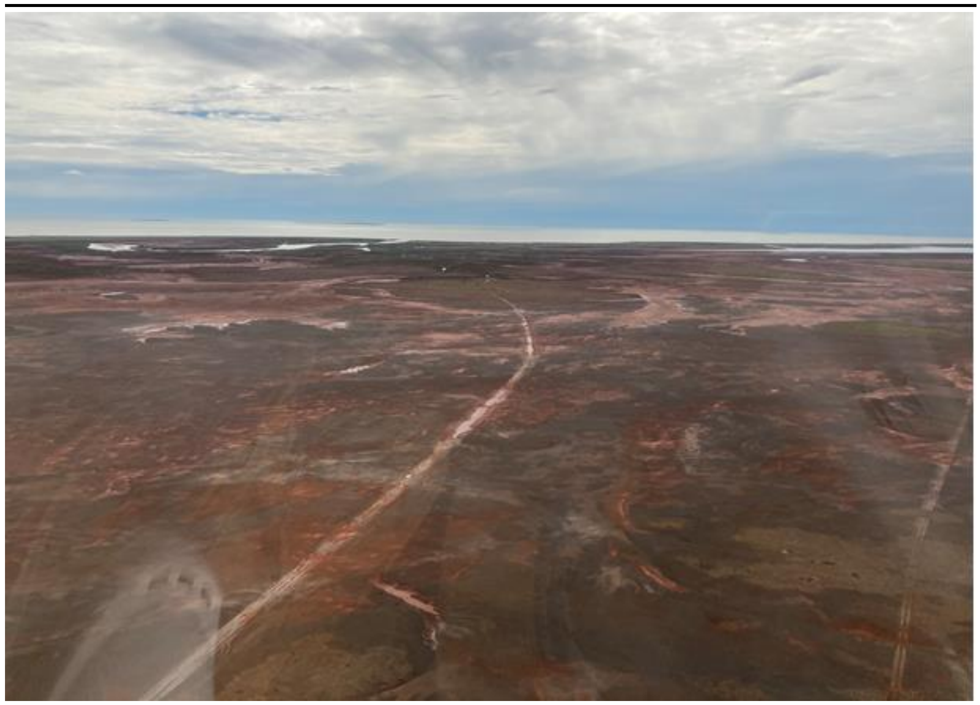
Topographical and geotechnical

As seen in Figure 4, Mardie benefits from flat topography (critical for low capex intensity). Additionally, it has a low permeability clay layer that extends across the planned pond footprint, which reduces the amount of product lost to seepage whilst also eliminating the need to line the ponds. Material surrounding the project is suitable for the construction of a low permeability sea wall which eliminates the need to transport suitable material up to site.

Minimal environmental and social impact

BCI has completed Mardie's environmental and review documents (ERD) which were compiled over a three-year period and incorporate surveys, studies and reports prepared in collaboration the WA Environmental Protection Authority (EPA) and the Federal Department of Agriculture, Water and Environment (DAWE). The region does not contain a high level of biodiversity or heritage sites (Native Title agreements have been executed with two Traditional Owner groups and compensation arrangements agreed). While we acknowledge BCI is yet to receive all the environmental approvals required for project development, we believe the extensive work BCI has completed to date demonstrates a project that offers minimal environmental and social impact.

Figure 4: The site benefits from flat topography and favourable geotechnical properties

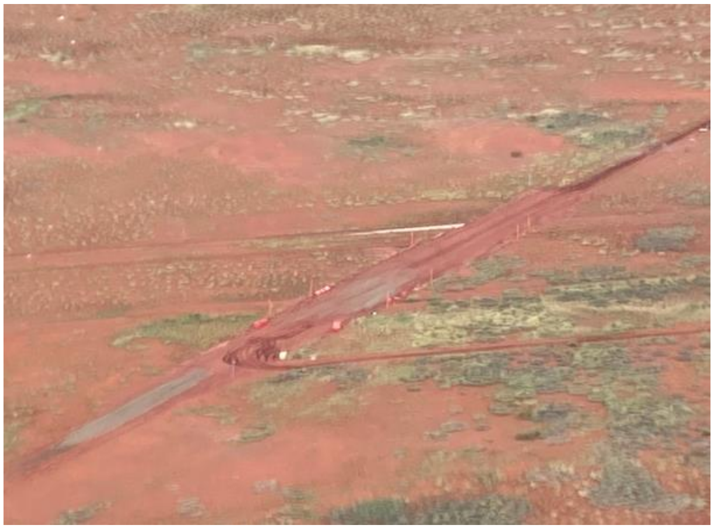


Source: Canaccord Genuity

Pipeline easement negotiations

Three major pipelines owned by Chevron and Santos cross the project area and easements are being negotiated. The company has indicated that the negotiations are at an advanced stage a view supported by the recent approval of a temporary pipeline crossing (Figure 5).

Figure 5: Temporary pipeline crossing



Source: Canaccord Genuity

Figure 6: Gas pipeline easement area

Source: Canaccord Genuity

Figure 7: Geotechnical analysis is well advanced

Source: Canaccord Genuity

Compelling economics

Our assumptions for Mardie are consistent with the optimised DFS, but we have been more conservative with regards to commodity prices and forex.

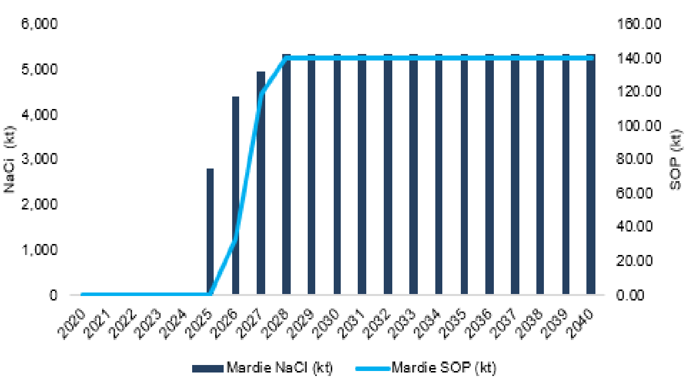
Figure 8: Optimised DFS versus CG assumptions

	DFS	Optimised DFS	CG forecast
Mine life once ramped up	60 years	60 years	60 years
upfront capex	A$779	A$913	A$913
Sustaining capex Salt	A$1/t	A$0.9/t	A$0.9/t
Sustaining capex SOP	A$15/t	A$11.8/t	A$11.8/t
Production rate Salt	4.4Mtpa	5.35Mtpa	5.35Mtpa
Production rate SOP	120ktpa	140ktpa	140ktpa
First production Salt	Mid 2024	late 2024	late 2024
AISC salt (FOB)	A$20/t	A$21.5/t	A$21.5/t
AISC SOP (FOB)	A$310/t	A$337/t	A$337/t
LT Salt price (FOB)	US$34/t	US$41/t	US$37.5/t
LT SOP price (FOB)	US$501/t	US$507/t	US$500
LT Forex	0.68	0.70	0.75

Source: Company reports, Canaccord Genuity estimates

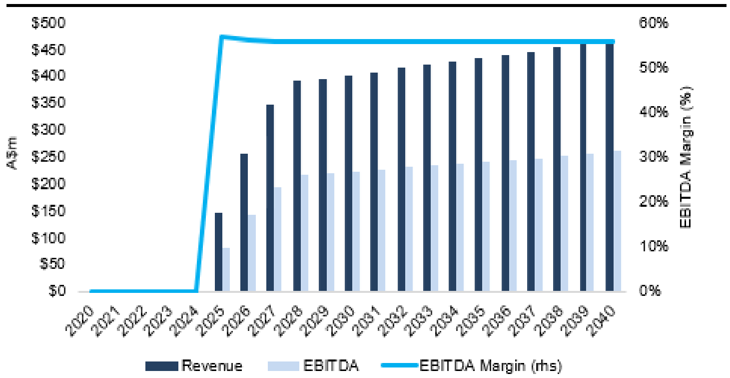
Figures 9 and 10 below illustrate our assumed production profile at Mardie, along with are modelled revenue and EBITDA profile out to 2040 (60year life used for valuation).

Figure 9: Mardie NaCl and SOP production profile



Source: Company reports, Canaccord Genuity estimates

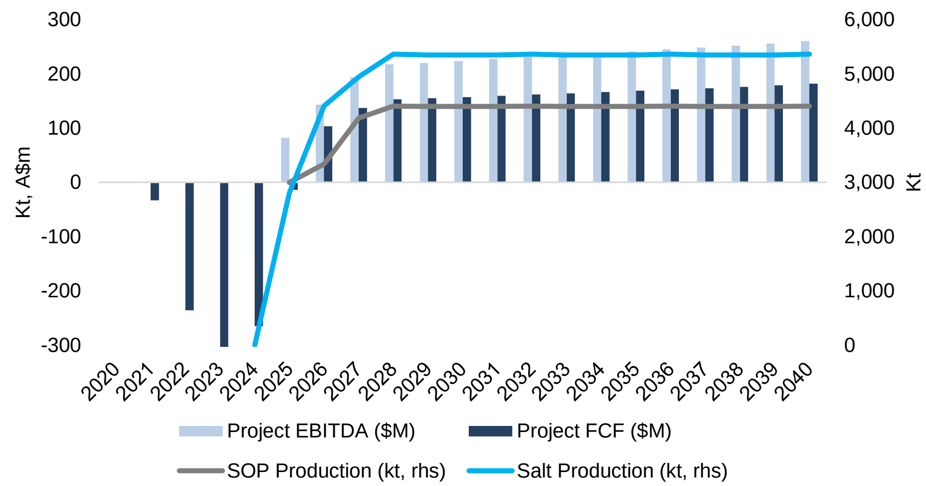
Figure 10: Mardie revenue and EBITDA profile as modelled



Source: Company reports, Canaccord Genuity estimates

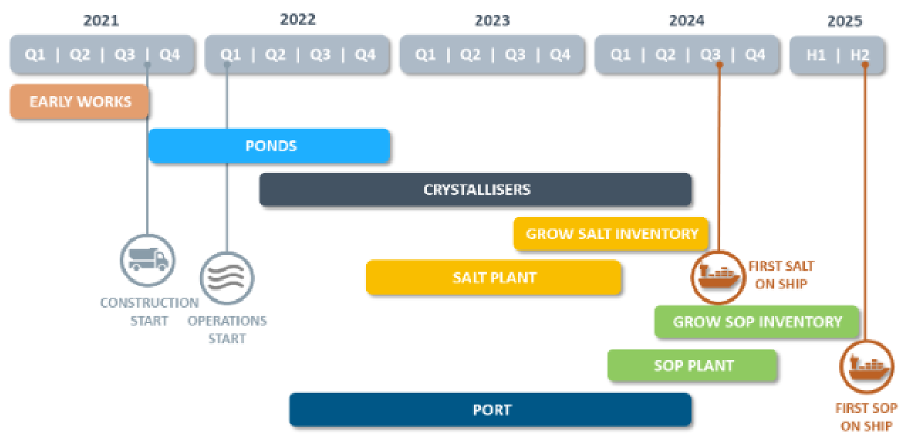
Our post-tax project cash flow estimates for the construction period and out to 2040 are shown in Figure 11. After a ~3.5-year construction period starting in 2021, we forecast first salt sales to commence in late -2024 and SOP sales commence in 2H 2025. We forecast free cash flows to become positive in 2026, ramping up to approximately $160m per annum by 2028 and maintained through the remainder of the 60+ year project.

Figure 11: EBITDA/FCF YoY over first 40 years at Mardie



Source: Company reports, Canaccord Genuity estimates

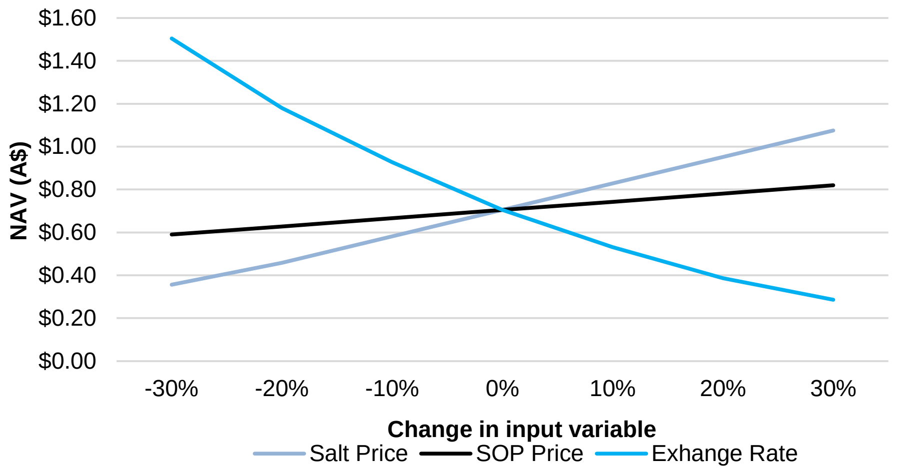
Figure 12: BCI's project schedule



Source: Company reports

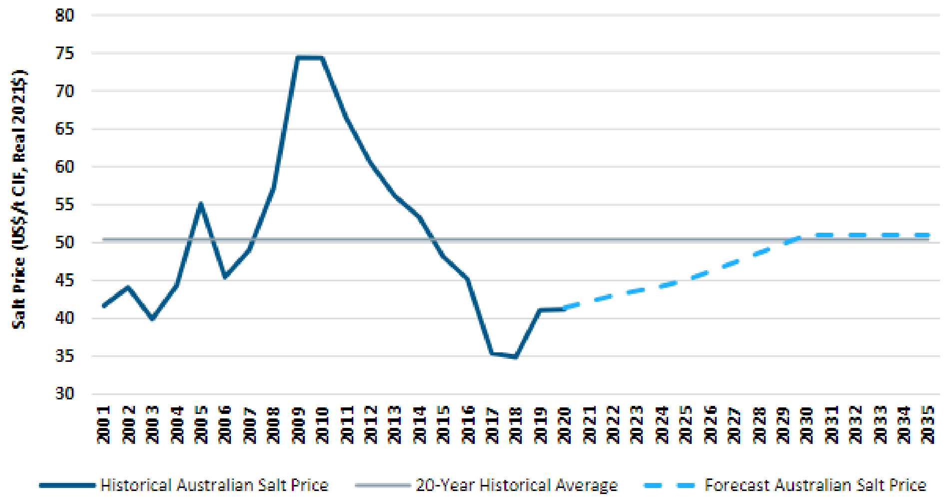
Our valuation is mostly sensitive to changes in the exchange rate and salt price assumptions, as approximately 75% of the projects revenue is generated by salt which is priced in US$. The project valuation is less sensitive to changes in the SOP price assumption- which is due to the lower amount of revenue generated from the product.

Figure 13: Risked valuation sensitivity – SOP price, salt price and USD:AUD



Source: Company reports, Canaccord Genuity estimates

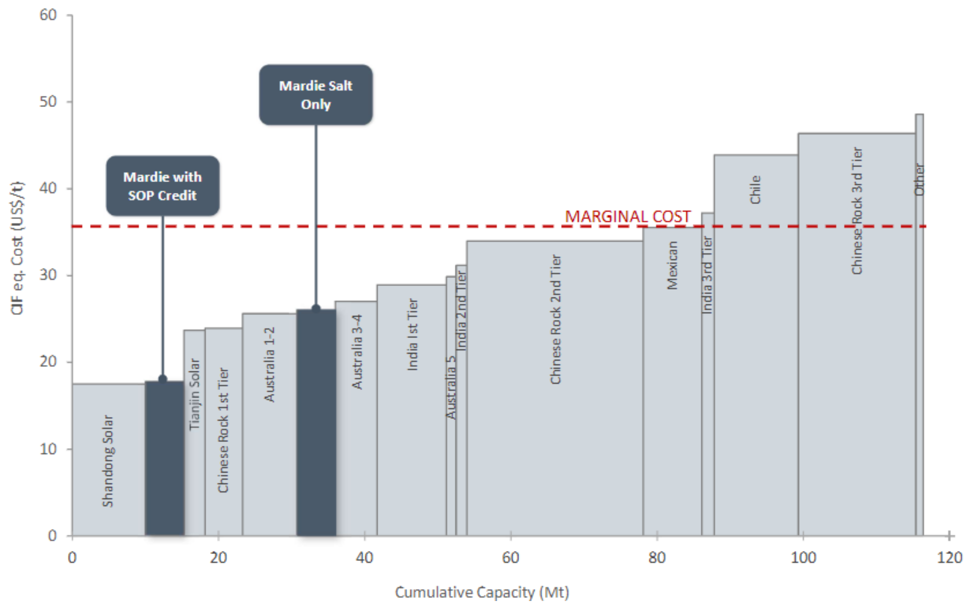
Figure 14: Historic salt price and Roskill forecast



Source: Company Reports, Roskill

Mardie has low capital intensity and sits firmly in the bottom quartile of the cost curve for operating costs (after SOP by-product credits).

Figure 15: Mardie is in the bottom quartile of the cost curve for its contestable market



Source: Company reports

Figure 15: Our sum-of-the-parts valuation for BCI

Asset	Equity %	Net Capacity ktpa	NPV A$mn	Risking %	Risked NPV A$mn	Risked NPV A$ps
Iron Valley		7500	148.4	100%	148	0.25
PRODUCTION ASSETS					**148**	**0.25**
Mardie		5,350	415.8	50%	208	0.35
DEVELOPMENT ASSETS					**208**	**0.35**
RESEOURCES		**0**			**0.0**	**0.00**
EXPLORATION		**0**			**0.0**	**0.00**
Net Debt, Balance sheet adj. & corp. overhead						**0.11**
Premium / (Discount)						0.00
Price Target						**0.70**

Source: Canaccord Genuity estimates

Appendix: Important Disclosures

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Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

Investment Recommendation

Date and time of first dissemination: June 07, 2021, 16:30 ET

Date and time of production: June 07, 2021, 01:56 ET

Target Price / Valuation Methodology:

BCI Minerals Limited - BCI

The price target of A$0.70 is set using a SOTP-based methodology.

Risks to achieving Target Price / Valuation:

BCI Minerals Limited - BCI

BCI's exploration properties may never be brought into production

The exploration for, and development of, mineral deposits involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. To mitigate this risk, the company has undertaken systematic and staged exploration and testing programs on its mineral properties and progressively undertaken a number of technical and economic studies with respect to its projects. However, given a formal decision on development is yet to be taken, there can be no guarantee that the properties will be ultimately brought into production.

BCI's activities will require further capital

The development of the company's exploration properties will require substantial additional financing. Failure to obtain sufficient financing may result in delaying or indefinite postponement of exploration, and any development of the company's properties or even a loss of property interest. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the company.

BCI is yet to receive the required environmental permits

An ERD has been submitted and the public consultation period is now closed, but there is no guarantee that the company will receive the requisite permits in a timely fashion.

BCI may be adversely affected by fluctuations in commodity prices

The price of salt and potash fluctuates and is affected by numerous factors beyond the control of the company. Future production and revenue, if any, from the company's mineral properties will be dependent upon the price of salt and potash being adequate to make these properties economic. The company does not currently engage in any hedging or derivative transactions to manage commodity price risk. This policy will be reviewed periodically going forward, as the company's operations change.

Global financial conditions may adversely affect BCI's growth and profitability

Many industries, including the mineral resource industry, are impacted by these market conditions. Some of the key impacts of the current financial market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations and high volatility in global equity, commodity, foreign exchange and precious metal markets, and a lack of market liquidity. Due to the current nature of the company's activities, a slowdown in the financial markets or other economic conditions may adversely affect the Company's growth and ability to finance its activities.

Distribution of Ratings:

Global Stock Ratings (as of 06/07/21)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	614	64.77%	42.02%
Hold	168	17.72%	25.60%
Sell	9	0.95%	11.11%
Speculative Buy	145	15.30%	65.52%
	948*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

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SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

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In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Investment Banking services from BCI Minerals Limited .

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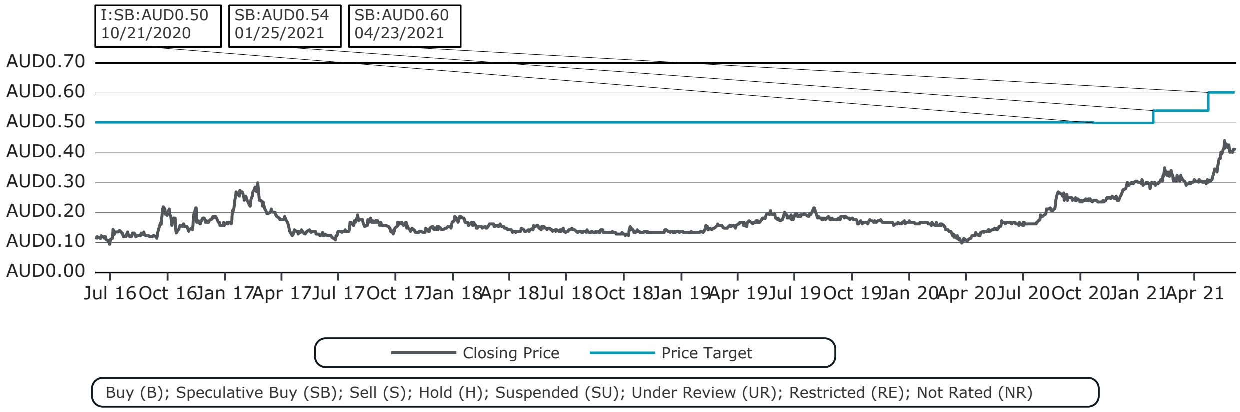
Canaccord Genuity or one or more of its affiliated companies intend to seek or expect to receive compensation for Investment Banking services from BCI Minerals Limited in the next three months.

An analyst has visited the material operations of BCI Minerals Limited. Partial payment was received for the related travel costs.

Canaccord Genuity (Australia) Limited has received a fee as Joint Lead Manager to the BCI Minerals Limited Capital Raising announced 14 September 2020.

BCI Minerals Limited Rating History as of 06/04/2021



Required Company-Specific Disclosures (as of date of this publication)

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