EQUITY RESEARCH

PAC PARTNERS

COMPANY BCI Minerals (BCI) **MCAP** A$330m $0.55/share Date: 26 July 2021

RECOMMENDATION Speculative Buy and PT $1.03/share, High Risk

EVENT 4Q21 Update

KEY POINTS

Key points from the quarterly are:

- 4Q21 EBITDA came in at $32.2m, on 1.5mt shipped. The average price received was nearly US$200/t.
- 4Q21 EBITDA was 60% higher than 3Q21 EBITDA, on similar volumes shipped. This was driven by the completion of the 40% discount with the mine operator late in the last quarter and the higher iron ore price, which also delivers a higher royalty rate.
- Adjusted net cash position for FY21 of $111.6m ($32m EBITDA received in July). This implies an EV of $220m. If 4Q21 EBITDA extrapolated ($130m), BCI is trading at 1.7x Iron Valley FY22 EV/EBITDA. Expectations are that the iron ore price has more downside than upside, however it does high light that Mardie is not being valued within BCI.
- Early works are advancing, indicating the company's belief the project will achieve approvals and that a decision on proceeding (FID) has board backing.
- Several key points that have already been announced were re-iterated, including
    - The EPA has recommended approval of the Mardie Project to the WA Minister for the Environment. Whilst estimating the length of time of political decisions is difficult (the minister has visited Mardie), there is a good possibility that the approvals are given in the current quarter, or failing that, the next quarter.
    - The appointment of Chris Salisbury (ex-head of iron ore and salt operations at RIO) is high profile. We assume Chris did due diligence on the project before joining and see that as an endorsement of the project.

Iron Valley

We forecast $34m EBITDA in 4Q21 and assumed that 2.0mt (vs. 1.5mt) was shipped in Q4. This implies our forecast iron ore price and royalty rate were too conservative. We used US$172.3/t for FY21 for iron ore.

In terms of volumes, MIN has previously guided Iron Valley as a 7-8mtpa mine and has previously ran at these rates. We suspect a shortage of truck drivers, plus the start-up of the nearby Wonmunna mine for MIN has been given staffing priority in the short term. This makes sense as it is lower impurities and lower royalties. We expect the intention would be to produce as much as possible in the current pricing environment.

We have currently left our forecasts unchanged and will look to update them post getting an update from MIN on guided FY22 Iron Valley production. In the scheme of things, there may be some tonnage downside, offset by higher pricing and royalty rates, so probably not material.

Approvals

Approvals are subject the final public appeals process and consultation with other Government departments before approval is sanctioned. In theory, there should not be too many objections. Whilst there are still some less important approvals to obtain, we believe that once the main approval is provided, BCI is likely to make its final investment decision and proceed to secure the required equity for the project.

In our opinion, things are advancing and get close to the large capital raise required as a condition precedent to debt funding.

VALUATION METRICS DCF (un-risked) $1.29/share | DCF (risked) $1.03/share

INVESTMENT VIEW

We use DCF to value BCI and factor in a 20% discount due to approvals and funding risks. We estimate that BCI raises at $0.45/share, though given the current share price, this looks a little conservative and a higher price equates to lower dilution and a potential higher target. Our DCF valuation remains at $1.29/share. Applying a 20% risk discount results in a price target of $1.03/share, ~87% above the current share price. We retain our Speculative Buy recommendation.

A rights issue means investors are better off getting set now, rather than waiting for the liquidity event. Approvals could also be a significant catalyst and we recommend owning BCI before that event.

Forecasts

BCI Earnings Forecasts

BCI Y/E Jun A$m	FY20A	FY21F	FY22F	FY23F
Revenue	54.2	172.1	145.4	112.5
EBITDA	16.4	55.7	46.1	25.4
EPS Adj (c)	4.4	6.4	2.8	1.3
EPS Growth	243%	44%	-56%	-53%
DPS (c)	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	18.5	(0.1)	3.0	15.0
PE Underlying (x)	13.0	9.0	20.2	43.1
Gearing (%)	-66%	-308%	-71%	7%

Source: PAC Partners estimates and BCI

Mardie earnings commence in FY25F in our forecasts, though in the meantime Iron Valley drives earnings until Mardie starts.

BCI published a table on Iron Valley earnings based on different assumptions. As it currently stands, BCI's EBITDA is likely to be materially higher in FY22 over FY21.

Figure 1: Guided EBITDA from Iron Valley using US$0.75 FX

Tonnes mt	US$ Iron Ore Price 62%					
	75	100	125	150	175	200
6.0	8	23	50	77	104	130
6.5	8	25	54	83	112	141
7.0	9	27	58	90	121	152
7.5	10	29	63	96	129	163
8.0	10	31	67	102	138	174

Source: BCI

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Recommendation Criteria

Investment View

PAC Partners Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Buy	Hold	Sell
>20%	20% – 5%	<5%

Risk Rating

PAC Partners has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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