



EQUITY RESEARCH



COMPANY BCI Minerals (BCI) **MCAP** A\$270m \$0.45/share Date: 20 August 2021

RECOMMENDATION Speculative Buy and PT \$0.92/share, High Risk

EVENT FY21 Result

KEY POINTS

BCI had already guided FY21 EBITDA of \$69.5m from Iron Valley. Overall EBITDA came in at \$28.9m, though this included \$34.4m of costs relating to the development of Mardie. Near term profit results are not that meaningful in relation as to why to invest in BCI.

The highlight of the FY21 result was that BCI was able to materially increase its cash on hand, guided as \$110m at 31st July 2021, post receiving the 4Q21 Iron Valley payment after the FY21 year end. This contributes to the equity portion required to fund Mardie.

A near term catalyst is receiving Government approval for Mardie to be able to commence construction and move to FID. So much for Governments fast tracking approvals (the opposite in our opinion), with BCI waiting on the minister to approve the project, post the EPA recommending approval. Approval is now guided as in 2021, indicating the process may take longer than we previously thought.

Another potential catalyst is MIN's Ashburton project, guided as being announced before or at its AGM (late October). BCI has a 1% revenue royalty for tonnes from the Buckland deposit, likely to one of two sites initially mined, with a potential mine rate of 15mtpa.

BCI has guided that the maximum external equity they will seek (either via a raise and/or an asset sale) is \$300m. We now assume BCI raise \$275m (from \$350m) at \$0.40/share (from \$0.45). This lowers the dilution from the raise.

We have changed our forecast Iron Valley tonnages post MIN indicating it expects to ramp Wonmunna up to 10mtpa, which implies volumes from Iron Valley are likely to fall.

We have left our FY22 iron ore price forecast unchanged at US\$140/t and left FX at US\$0.75. Whilst the recent iron ore price fall could continue, it is not clear whether actions to reduce demand will impact the price over the long term and our forecast still looks in the money.

After further analysis of BCI's royalty rates, we believe we had under-estimated them in the past. The net effect of increasing royalties and lowering tonnes is that we have changed FY22-24 EBITDA by -\$0.2m , -\$6.4m and +\$2.8m respectively.

VALUATION METRICS DCF (un-risked) \$1.15/share | DCF (risked) \$0.92/share

LINK TO RESEARCH NOTE [BCI_FY21](#)

INVESTMENT VIEW

We use DCF to value BCI and factor in a 20% discount due to approvals and funding risks. We have increased the estimated working capital requirements for Mardie by \$100m. We also reviewed our WACC (in line with all companies under coverage) and our WACC moves to 6.90% (from 7.00%).

The net result of our changes is that our DCF valuation moves to \$1.15/share (from \$1.29). Our 20% discounted price target of \$0.92/share represents a very impressive TSR of 104%.

Approvals remains a key catalyst for BCI. Whilst iron ore pricing sentiment has pushed down the share price, BCI is really mostly about Mardie, with Iron Valley assisting on the equity component. In our opinion, the fundamentals of salt and SOP have not changed. We see recent share price weakness as a buying opportunity, albeit if the iron ore price continues to fall it could continue to impact sentiment.

A rights issue means investors are better off getting set now or starting to build a position now, rather than waiting for the liquidity event.

Forecasts

BCI Earnings Forecasts

BCI Y/E Jun A\$m	FY21A	FY22F	FY23F	FY24F
Revenue	160.2	119.6	71.8	46.0
EBITDA	28.9	45.9	19.0	4.6
EPS Adj (c)	14.5	5.3	-0.2	-4.0
EPS Growth	143%	-63%	-103%	2375%
DPS (c)	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	6.6	0.6	17.6	159.5
PE Underlying (x)	3.1	8.5	-278.7	-11.3
Gearing (%)	-85%	-103%	12%	52%

Source: PAC Partners estimates and 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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