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BCI Minerals Ltd (BCI)

\$740m debt secured for Mardie Project

Recommendation

Buy (unchanged)

Price

\$0.445

Target (12 months)

\$0.74 (unchanged)

GICS Sector

Materials

Expected Return

Capital growth	66%
Dividend yield	0%
Total expected return	66%

Company Data & Ratios

Enterprise value	\$158m
Market cap	\$267m
Issued capital	600m
Free float	75%
Avg. daily val. (52wk)	\$303,878
12 month price range	\$0.235-0.615

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.44	0.55	0.24
Absolute (%)	-5.7	-24.5	72.9
Rel market (%)	-4.5	-25.3	52.7

Absolute Price



SOURCE: IRESS

NAIF, EFA & commercial banks pledge +\$740m debt support

BCI has announced conditional approval for \$740m in debt funding to underpin the Mardie Salt and Sulphate of Potash (SOP) Project's \$1.2b capital requirement. The debt package includes the Northern Australia Infrastructure Facility (NAIF, \$490m, 15-year tenor), Export Finance Australia (EFA, \$110m, 10-years) and credit approvals from two commercial banks (\$140m, 7-years). The upsizing of the NAIF facility (originally \$450m), level of debt support (62%), concessional lenders involved (NAIF and EFA) and the long tenor of the facilities highlights the Mardie project's attractive, sustainable cash flow potential and positive ESG characteristics.

EPS changes in this report reflect changes to our near term iron ore outlook only: FY22 now 7.0cps (previously 9.6cps); FY22 no change; and FY23 no change.

Next steps: Approvals & FID by early 2022

Early site works at Mardie have commenced, with the construction of embankments and trial ponds and the expansion of accommodation facilities either underway or near completion. We expect ministerial approval and the BCI board to progress Mardie to a final investment decision (FID) by the end of 2021. With \$740m of the \$1.2b Mardie capital requirement debt secured, remaining funding (around \$460m) will come from BCI's cash reserves (\$110m at 31 July 2021), ongoing Iron Valley cash flow (we estimate EBITDA of \$56m in FY22) and new equity. BCI has supportive cornerstone shareholders and is particularly attractive to ESG focused investors.

Investment thesis: Buy, Target Price \$0.74/sh

The Mardie Salt and SOP project is transformational for BCI and now has increased support from government backed debt agencies and commercial lenders. This support recognises the project's 60+ year life, strong earnings potential and sustainable, carbon neutral credentials. Mardie is complemented by near-term cash flows from its Iron Valley operations.

Earnings Forecast

Year ending 30 June	2021a	2022e	2023e	2024e
Sales (A\$m)	160	126	91	118
EBITDA (A\$m)	29	48	24	33
NPAT (reported) (A\$m)	22	48	24	(11)
NPAT (adjusted) (A\$m)	22	48	24	(11)
EPS (adjusted) (cps)	4.0	7.0	2.7	(1.2)
EPS growth (%)	4152%	74%	-61%	-144%
PER (x)	11.1x	6.4x	16.3x	-36.7x
FCF Yield (%)	-3%	-40%	-81%	-90%
EV/EBITDA (x)	5.5x	3.3x	6.6x	4.9x
Dividend (cps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	-	-	-	-
ROE (%)	16%	20%	7%	-3%

SOURCE: BELL POTTER SECURITIES ESTIMATES

\$740m debt secured for Mardie Project

NAIF, EFA & commercial banks pledge +\$740m debt support

BCI has announced conditional approval for \$740m in project finance debt for its Mardie Salt and SOP project. The funding is expected to account for approximately 62% of Mardie's total capital requirement of \$1.2b. Key components of the funding are:

- NAIF \$490m, 15-year facility: Upsized from the \$450m loan previously approved in December 2020 in recognition of the larger project outlined in BCI's April 2020 Mardie optimised feasibility study;
- EFA \$110m, 10-year facility; and
- Two commercial banks (Australian and international) credit approval for \$310m, including a \$140m 7.5-year construction facility, a \$120m cost overrun facility and a \$50m bank guarantee facility to cover performance bonds required under construction and operating contracts. These facilities align with the international market standard for Green Loans.

The facility agreements follow extensive due diligence and are conditional on formal documentation, project approvals, product offtake arrangements, and other customary provisions. The estimated \$1.2b funding requirement includes all construction, contingency finance and working capital costs associated with the Mardie project.

Aligns with BCI's previously proposed funding structure

The new debt arrangements align with BCI's previously proposed funding structure, with around 60% of the Mardie project's capital requirement debt funded and the remainder (in total around \$460m) to be provided by existing cash (\$110m at 31 July 2021) corporate debt and new equity. BCI expect its equity contributions to be allocated first, followed by the NAIF facility drawn to 50% and thereafter, the bank facility, and pro rata drawing from the EFA facility and remaining balance of the NAIF facility.

Transformation support recognising Mardie's ESG credentials

This debt funding support is transformational for the Mardie project on its pathway to final regulatory approvals and a BCI Board sanctioned FID. The government-backed concessional debt agencies involved and the long tenor of the facilities recognises the project's long life, strong sustainable earnings profile and ESG credentials. The Mardie optimised feasibility study outlined a 60+ year project generating on average \$260m in EBITDA per year. More than 99% of the energy required to produce salt and SOP at Mardie is derived from natural solar and wind sources, with seawater the inexhaustible feedstock.

Next steps: Approvals & FID by early 2022

- **Q4 2021:**
 1. Environmental Ministerial approval and granting of project land tenure.
 2. BCI Board to take Mardie project FID.
- **Early 2022:**
 1. Further Mardie project salt and SOP offtake MoUs and the conversion of existing MoUs into conditional binding offtake agreements.
 2. Commencement of Mardie project evaporation pond construction.

Iron ore price update & earnings changes

Changes to iron ore price outlook

We have lowered our near-term iron ore price forecasts to reflect the latest market movements and dynamics, but still expect some normalisation of supply-demand balance in 1H 2022 (and potentially some market tightness on pent-up demand and re-stocking following the current steel production restrictions). We have left our medium term and long-term forecasts unchanged, which were already on the low side of consensus.

Table 1 - Updated iron ore price forecasts vs latest consensus

US\$/t	Dec-21	Jun-22	FY22	FY23	Long term (real)
Old	165	120	143	100	95
New	124	113	118	100	95
Change	-25%	-6%	-17%	0%	0%
USD:AUD	0.74	0.73	0.74	0.74	0.74

SOURCE: CONSENSUS ECONOMICS AND BELL POTTER SECURITIES ESTIMATES

Figure 1 - Bell Potter iron ore (Fines) CFR @ 62% price forecast



SOURCE: FASTMARKETS, CONSENSUS ECONOMICS & BELL POTTER SECURITIES ESTIMATES

Changes to earnings estimates

The changes to our earnings estimates in the following table reflect changes to our iron ore price outlook only.

Table 2 - Changes to earnings estimates

Year ending 30 Jun	Previous			New			Change		
	2022e	2023e	2024e	2022e	2023e	2024e	2022e	2023e	2024e
Production (wmt)	6.4	7.0	7.0	6.4	7.0	7.0	0%	0%	0%
Iron ore price (62% CFR China) (US\$/t)	143	100	95	118	100	95	-17%	0%	0%
Sales (A\$m)	166	91	118	126	91	118	-24%	0%	0%
EBITDA (A\$m)	66	24	33	48	24	33	-27%	0%	0%
NPAT (reported) (A\$m)	66	24	(11)	48	24	(11)	-27%	0%	0%
NPAT (adjusted) (A\$m)	66	24	(11)	48	24	(11)	-27%	0%	0%
EPS (adjusted) (¢ps)	9.6	2.7	(1.2)	7.0	2.7	(1.2)	-27%	0%	0%
Dividend (¢ps)	-	-	-	-	-	-	0%	0%	0%
Valuation (\$/sh)	0.73			0.73			0%		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Iron Valley supplements Mardie funding

We have updated our Mardie funding scenario analysis to recognise BCI's funding arrangements; conditional approval for \$740m in debt facilities resulting in \$460m of the project's cost to be sourced from existing cash holdings (\$110m at 31 July 2021), Iron Valley earnings, corporate debt and new equity.

Our scenarios show that by the end of the March 2022 quarter, BCI will require additional funding (corporate debt, product prepayments or equity) of:

- \$230m under our revised iron ore price outlook; or
- \$180m should iron ore prices remain at current spot levels (US\$125/t).

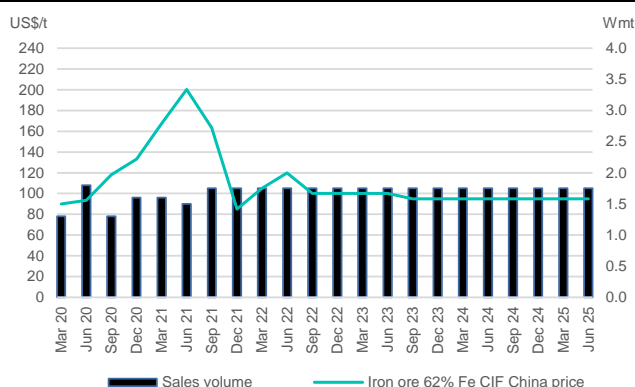
The prevailing iron ore price over the next few months will also impact BCI's share price and therefore the ultimate capital raising dilution. BCI has supportive cornerstone shareholders (Wroxby Pty Ltd, 39.5%) and is particularly attractive to ESG focused investors.

Scenario 1: Bell Potter Securities' iron ore price outlook

We assume iron ore prices to average US\$118/t in FY22, US\$100/t in FY23 and US\$95/t (real) in the long run. Iron Valley shipments are held constant at 7.0Mtpa.

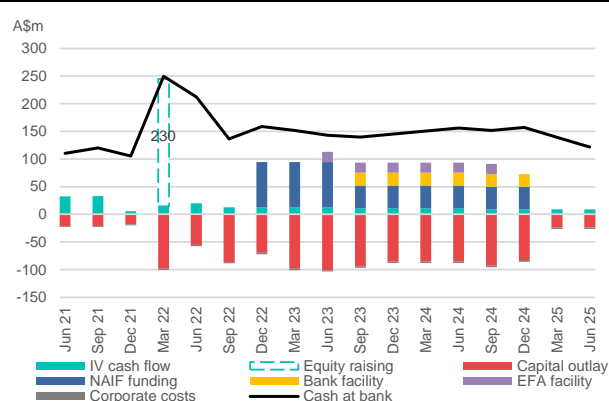
Our modelling suggest that BCI will require \$230m by the end of the March 2022 quarter under this price scenario.

Figure 2 - BPe base case: iron ore price vs sales volume



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 3 - BPe base case: capital costs and financing



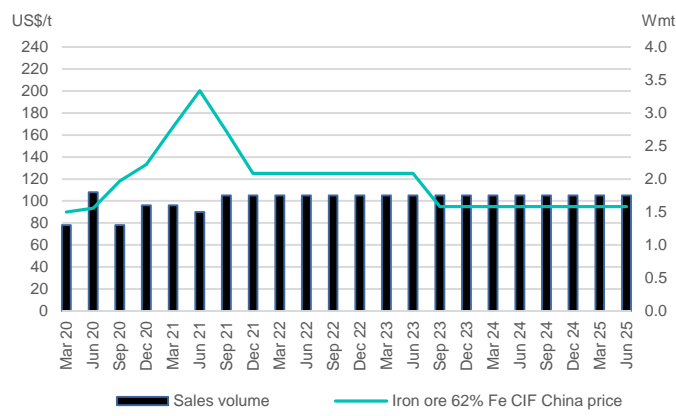
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Scenario 2: Prices at spot US\$125/t from Q1 FY22 to FY23

Under this scenario, prices average US\$125/t per quarter to the end of FY23, before decreasing to our long run price estimate of US\$95/t (real). Iron Valley shipments are held constant at 7.0Mtpa.

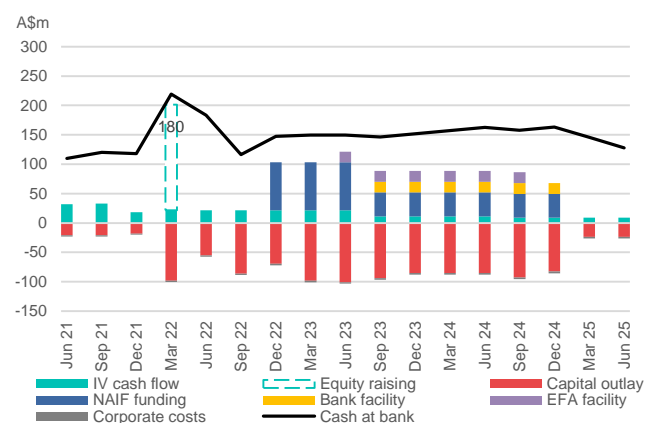
Our modelling suggest that BCI will require \$180m by the end of the March 2022 quarter under this scenario.

Figure 4 - Spot price scenario: iron ore price vs sales volume



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 5 - Spot price scenario: capital costs and financing



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

BCI valuation comparison

The table below outlines potential upside to our BCI valuation from lower dilution as higher iron ore prices assumptions are considered, compared with our price forecasts.

Table 3 - Scenario comparison: BCI valuation

	New equity required	New shares at current share price	Dilution compared with base case	Valuation uplift from base case	Implied valuation
	\$m	m	%	%	\$/sh
Base case	230	608			0.73
Spot price scenario	180	404	-17%	20%	0.88

SOURCE: 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. An optimised feasibility study on Mardie was published in April 2021 outlining a project capable of producing 5.35Mtpa salt and 140ktpa SOP, and with annual EBITDA of \$260m and a pre-tax NPV (7% discount rate) of \$1,670m. 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 \$0.74/sh

The Mardie Salt and SOP project is transformational for BCI and now has increased support from government backed debt agencies and commercial lenders. This support recognises the project's 60+ year life, strong earnings potential and sustainable, carbon neutral credentials. Mardie is complemented by near-term cash flows from its Iron Valley operations.

Valuation methodology

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

- Mardie Salt & SOP project, with parameters consistent with the May 2021 PFS Optimisation Study, 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 7.0Mtpa and generating annual EBITDA of around \$26m until 2030 assuming a long term iron ore price of US\$95/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.

Table 4 - Financial summary

Date	15/10/21					Bell Potter Securities								
Price	A\$/sh	0.45				Stuart Howe (showe@bellpotter.com.au, +61 3 9235 1856)								
Target price	A\$/sh	0.74				Joseph House (jhouse@bellpotter.com.au, +61 3 9235 1624)								
PROFIT AND LOSS						FINANCIAL RATIOS								
Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e	Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e	
Revenue	\$m	77	160	126	91	118	VALUATION							
Expenses	\$m	(81)	(131)	(78)	(68)	(85)	EPS	Ac/sh	0.1	4.0	7.0	2.7	(1.2)	
EBITDA	\$m	(4)	29	48	24	33	EPS growth (Acps)	%	-97%	4152%	74%	-61%	-144%	
Depreciation & amortisation	\$m	(6)	(7)	-	-	(16)	PER	x	470.6x	11.1x	6.4x	16.3x	-36.7x	
EBIT	\$m	(10)	22	48	24	16	DPS	Ac/sh	-	-	-	-	-	
Net interest expense	\$m	0	0	-	-	(27)	Franking	%	0%	0%	0%	0%	0%	
Profit before tax	\$m	(10)	22	48	24	(11)	Yield	%	0%	0%	0%	0%	0%	
Tax expense	\$m	-	-	-	-	-	FCF/share	Ac/sh	2.0	(1.4)	(18.0)	(36.2)	(40.1)	
NPAT (reported)	\$m	(10)	22	48	24	(11)	FCF yield	%	4%	-3%	-40%	-81%	-90%	
NPAT (adjusted)	\$m	0	22	48	24	(11)	EV/EBITDA	x	-36.4x	5.5x	3.3x	6.6x	4.9x	
CASH FLOW STATEMENT						LIQUIDITY & LEVERAGE								
Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e	Net debt / (cash)	\$m	(42)	(79)	(52)	264	613	
OPERATING CASH FLOW							Net debt / Equity	%	-40%	-46%	-16%	77%	186%	
Receipts from customers	\$m	82	121	154	96	101	Net debt / Net debt + Equity	%	-66%	-85%	-19%	44%	65%	
Payments to suppliers and employees	\$m	(78)	(112)	(93)	(70)	(71)	Net debt / EBITDA	x	9.6x	-2.7x	-1.1x	11.1x	18.9x	
Tax paid	\$m	-	-	-	-	-	EBITDA / net int expense	x	-10.1x	103.2x	0.0x	0.0x	-1.2x	
Net interest	\$m	0	0	-	-	(27)	PROFITABILITY RATIOS							
Other	\$m	-	-	-	-	-	EBITDA margin	%	-6%	18%	38%	26%	28%	
Operating cash flow	\$m	4	9	60	27	3	EBIT margin	%	-13%	14%	38%	26%	14%	
INVESTING CASH FLOW							Return on assets	%	-7%	12%	16%	4%	-1%	
Capex	\$m	(7)	(17)	(184)	(342)	(352)	Return on equity	%	-9%	16%	20%	7%	-3%	
Disposal of assets	\$m	11	-	-	-	-	ASSUMPTIONS - Prices (nominal)							
Other	\$m	-	0	-	-	-	Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e	
Investing cash flow	\$m	3	(17)	(184)	(342)	(352)	Iron ore price (62% CFR China)	US\$/t	94	155	118	100	95	
FINANCING CASH FLOW							Salt price (CFR Asia)	US\$/t	-	-	-	-	22	
Debt proceeds/(repayments)	\$m	-	-	-	531	225	SOP price (FOB Australia)	US\$/t	-	-	-	-	-	
Dividends paid	\$m	-	-	-	-	-	FX	US\$/A\$	0.67	0.75	0.73	0.73	0.73	
Proceeds from share issues (net)	\$m	-	46	96	-	-	ASSUMPTIONS - Sales (equity)							
Other	\$m	-	(0)	-	-	-	Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e	
Financing cash flow	\$m	-	46	96	531	225	Iron ore sales	Mt	7.2	6.0	6.4	7.0	7.0	
Change in cash	\$m	34	42	79	52	267	Salt sales	Mt	-	-	-	-	0.5	
Free cash flow	\$m	8	(8)	(124)	(315)	(349)	SOP sales	kt	-	-	-	-	-	
BALANCE SHEET						SEGMENT EBITDA								
Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e	Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e	
ASSETS							Iron Valley	\$m	21	70	56	32	26	
Cash	\$m	42	79	52	267	143	Mardie Salt & SOP	\$m	-	-	-	-	15	
Receivables	\$m	16	56	29	24	41	Other	\$m	(25)	(41)	(8)	(8)	(8)	
Inventories	\$m	-	-	-	-	-	Total	\$m	(4)	29	48	24	33	
Capital assets	\$m	46	59	244	586	921	VALUATION							
Other assets	\$m	32	33	33	33	33	Shares on issue m						600	
Total assets	\$m	136	228	357	910	1,138	Shares and rights on issue m						615	
LIABILITIES							Diluted shares on issue (following assumed raising) m						878	
Creditors	\$m	18	38	22	20	34	Valuation						A\$m	A\$/sh
Borrowings	\$m	-	-	-	531	756	Mardie Salt & Potash project (unrisked)						\$468m	
Provisions	\$m	12	16	16	16	16	Risk discount to account for project stage						15%	
Other liabilities	\$m	1	2	2	2	2	Mardie Salt & Potash project (risked)						\$396m	
Total liabilities	\$m	32	55	40	569	808	Iron Valley agreement						\$120m	
NET ASSETS							Value of core projects (risked)						\$515m	
Share capital	\$m	267	313	409	409	409	Corporate & admin						-\$80m	
Reserves	\$m	5	6	6	6	6	Enterprise value (risked)						\$435m	
Accumulated losses	\$m	(169)	(147)	(99)	(75)	(85)	Net debt / (cash) (including raising)						-\$209m	
Non-controlling interest	\$m	-	-	-	-	-	Equity value of core projects (risked)						\$644m	0.73
SHAREHOLDER EQUITY	\$m	104	173	317	341	330								
Weighted average shares	m	399	548	690	870	870								

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

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