

**COMPANY** BCI Minerals (BCI)      **MCAP** A\$270m      \$0.415/share      Date: 15 October 2021

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

**EVENT** Debt funding for Mardie project in place

### KEY POINTS

BCI has announced the following in relation to funding for the Mardie project:

- The NAIF facility (previously announced as \$450m), has been upsized to \$490m. This is a 15-year loan;
- Export Finance Australia has approved a \$110m loan, with a 10-year tenor;
- Two unnamed commercial banks (one Australian, one International) have committed \$140m, with a surprising long tenor of seven years; and
- The same two banks have provided \$170m facility for cost overruns.

BCI has put in place \$740m of debt, with a potential \$170m additional debt if required. The debt is subject to BCI being granted final approvals, expected in the current quarter. In our opinion, all the debt required for the project is in place, with the remaining funding to be from either: new equity, existing cash (guided as \$110m at 31<sup>st</sup> July 2021) and income from the Iron Valley mine.

BCI indicates that it requires \$460m of equity funding. The volatility in the iron ore price is likely to have BCI more cautious when calculating the income to be provided from Iron Valley. We believe our estimate of \$275m of new equity still looks about right, based on a total funding requirement of \$1.2bn.

A project the size of Mardie sitting within a company the size of BCI has two main risks:

- Funding risk – though with very long dated debt in place and a decent cash balance, this risk looks much lower today than when we first commenced coverage of BCI; and
- Securing approvals. One of the things that attracted us to BCI was their track record in securing mining approvals. Final approval is not in place yet, but with \$600m of Government money being committed to the project (from NAIF and Export Finance Australia), this looks a pretty sure bet that it succeeds.

The next major catalysts for BCI appear to be:

- Securing final approval, which would allow the board to make a decision on FID. An equity raise would follow and construction could commence; and
- A gas pipeline runs nearby and finalising negotiations with the pipeline owner removes the last remaining major hurdle before construction can commence.

We leave forecasts unchanged but see today's announcement as a very positive development for BCI.

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

### INVESTMENT VIEW

We use DCF to value BCI and factor in a 20% discount due to approvals and funding risks. We are tempted to lower the discount and remove the speculative rating from our recommendation, but will wait until approvals are in, which still have the potential to slip.

Our un-risked DCF valuation is \$1.15/share and risked 20% is \$0.92/share. This represents a very impressive TSR of 122%. The volatility in the iron ore price has impacted the share price of BCI. In our opinion, BCI is about Mardie and the lower share price represents a buying opportunity.

Approvals remains a key catalyst for BCI, which could occur in the near term.

## 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

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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.

#### 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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Buy	Hold	Sell
>20%	20% – 5%	<5%

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