

BCI Minerals (BCI)

Progressing towards FID

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KEY POINTS

- Iron Valley outperformed our 1Q21 EBITDA expectations, generating \$7.1m EBITDA on just 1.3mt shipped. Completion of a large cut back and dewatering program has the mine operator retaining guidance of 7.5-8.5mt for FY21, implying a run rate of 2.0-2.4mt per quarter for the remainder of FY21.
- Mardie has been granted 'Major Project Status' by the Federal Government. This is an endorsement that the Government wants the project to proceed. This should assist with achieving environmental approvals and is potentially a positive from a funding perspective.
- Substantial early works are underway. We estimate BCI is looking to spend ~\$40-50m on Mardie before FID. This implies that BCI (and its major shareholder) are confident that the project will achieve FID and get built.
- In October 2020, K + S AG has agreed to sell its US salt operations (Morton Salt) to another salt manufacturer for US\$3.2bn. In FY19, Morton Salt generated US\$257m of EBITDA, implying an acquisition multiple of 12.5x EBITDA. Using the same multiple for BCI based on fully ramped DFS guided EBITDA of \$197m, implies an EV of \$2.45bn for Mardie (we assume it is fully ramped in FY28). Whilst still some time off, it highlights the considerable upside that exists at BCI.
- Compass Minerals is BCI's closest peer. For FY21, it is trading at 9.0x EV/EBITDA, highlighting the potential value of Mardie outside of takeover, implying a long-term valuation of \$1.75bn.
- Due to the higher than previously forecast iron ore price, will raise our BCI forecasts by \$3.8m / \$1.3m and \$2.6m respectively between FY21-FY23. We now assume that BCI raises the balance of capital (\$267m) at \$0.25/share (from \$0.20).

INVESTMENT VIEW

Due to the long lead time to reach steady state production (FY28), we use DCF to value BCI. We factor in a \$267m capital raising at \$0.25/share in late FY21. This results in an un-risked valuation of \$0.61/share (from \$0.58). We apply a 25% discount to account for the project's development stage. This results in a price target of \$0.46/share (from \$0.44), ~100% above the current share price. We retain our Speculative Buy recommendation.

We see the progress of American Pacific Borates (Borate and SOP project) as a good example of the re-rate available as milestones are achieved. ABR's share price has increased >200% since the release of its DFS in mid-April 2020 and it recently secured the remaining approvals. We see two potentially large near-term catalysts for BCI being:

- Securing environmental approvals; and
- Announcing the funding package from NAIF (equity conditions precedent likely) and other banks.

Relative to ASX listed SOP peers, BCI looks materially undervalued. We expect it has high near-term re-rating potential and should attract investors looking for immediate share price growth due to pending catalysts. Longer term, BCI is forecast to generate ~\$200m pa of EBITDA. With a very long life and an endless resource, it should be on the radar for value funds.

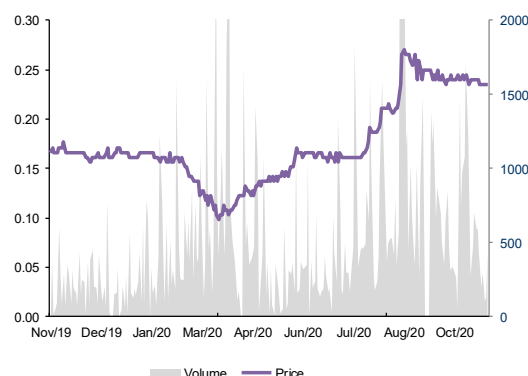
Recommendation	Speculative BUY
Previous Recommendation	Spec. Buy \$0.37
Risk Rating	High
Current Share Price	\$0.235
12 Month Price Target	\$0.46/share
Price target Methodology	DCF
Total Return (Capital + Yield)	100%
Mardie steady state EBITDA	\$200m pa
Market Capitalisation	\$141m
Liquidity	\$0.1m/day

Financial Forecasts & Valuation Metrics

BCI Y/E Jun A\$m	FY20A	FY21F	FY22F	FY23F
Revenue	54.2	101.8	85.7	72.7
EBITDA	16.4	11.7	13.9	7.7
EPS Adj (c)	4.4	1.8	0.6	0.1
EPS Growth	243%	60%	67%	-79%
DPS (c)	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	6.0	(16.9)	(1.5)	26.8
PE Underlying (x)	5.3	13.1	40.2	190.6
Gearing (%)	-66%	-555%	-65%	14%

Source: PAC Partners estimates

12 Month Share Price and Volume



Key Milestones

- DFS publication, recently released.
- Achieving environmental approval, expected Q1 2021
- Achieving FID, expected in late Q1 2021
- Announcing the amount of support (long term funding) to be provided from NAIF
- Raising equity and commencing construction (already underway)
- Further trial work and optimisation studies reducing the risk of cost overruns
- Re-rating as the prospect of Mardie gets factored in

DISCLOSURE: Entities associated with the author of this report own shares in BCI Minerals Limited

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The information contained in this report is to be read in conjunction with other important disclosures at the end of this document.

1Q FY21 Update

Iron Valley appears to be a solid cash generator for several years to come

Major project status materially de-risks environmental approvals, in our opinion

Securing binding offtake agreements is a balance between certainty and giving away some product pricing

Morton Salt has operations in de-icing salt (lower margin) and achieving such a high price gives an indication of industry players view of future demand

IRON VALLEY PERFORMANCE BETTER THAN EXPECTED

1Q21 shipments from Iron Valley were 1.3mt (lower than expected) for the quarter, with BCI generating \$7.1m EBITDA (higher than expected). Mineral Resources (MIN) is the mine operator, with BCI receiving a royalty. MIN guided that the average sell price received for iron ore in 1Q21 was US\$97/t (from two operating mines). The higher than expected price has us upgrading our expectations from Iron Valley.

Guidance for Iron Valley for FY21 is for 7.5-8.5mt to be shipped. MIN indicated that a successful dewatering and waste removal programme has exposed the ore body to allow an increased shipping rate in Q2 and subsequent quarters. We expect that the shipment rate will be higher in subsequent quarters.

MARDIE GRANTED MAJOR PROJECT STATUS

During the quarter, Mardie received major project status from the Australian Federal Government. This status adds lowers the risk of receiving environmental approvals and increases the chances of a high funding allocation from NAIF, in our opinion.

Receiving this approval gives a clear indication that the Mardie project has Government support and validates our view that it is very likely to get to the FID stage and be built.

FUNDING UPDATE

NAIF and several banks are in the due diligence stage of assessing funding packages, with independent experts appointed to run the due diligence. This implies that the process of obtaining funding is underway in the time frames expected.

In our opinion, securing ~65% of the required capital via debt markets (with a good portion long dated) is a major catalyst for BCI and an announcement could occur sooner before the end of 2020.

APPROVALS UPDATE

The public review period for the Mardie project completed in 1Q FY21. BCI indicated that a relatively limited number of comments were received. EPA approval of the project is expected in early 3Q21, with ministerial approval expected to follow shortly afterwards. Approval appear to be on target for the time frames earlier guided by BCI.

OFFTAKE AGREEMENTS

BCI has 13 non-binding offtake agreements with potential customers in Asian markets. With salt samples now available, BCI is now actively pursuing establishment of binding offtake agreements. Binding agreements represent another near-term catalyst and may also be a requirement before being able to draw down debt funding.

MORTON SALT UNDER TAKEOVER OFFER

K+S has signed a contract to sell its US based Morton Salt operations to fellow US based salt producer Stone Canyon Industries for US\$3.2bn (subject to regulatory approval). The sale price represents 12.5x FY19 EBITDA of \$257m.

A higher than expected price was achieved due to synergies, but nonetheless it gives an indication of what BCI could be worth if taken over by an existing Australian salt operator (RIO or Mitsui) when at full production.

Assuming BCI operates at \$197m EBITDA as projected in its DFS, we explore what BCI could be worth at two different multiples:

- Morton salt takeover multiple; and
- Compass Minerals FY21F EV/EBITDA multiple, BCI's closest peer.

Figure 1: Potential BCI Valuation when at full production using peer multiples

	EBITDA	EBITDA Multiple	Market Cap	FY29 BCI EBITDA	BCI Valuation
Compass Minerals	490	9.0x	4,410	197	1,773
Morton Salt	257	12.5x	3,200	197	2,463

Source: Roskill, CapIQ and PAC Partners

We don't expect Mardie to be fully ramped until FY29, some time off. Using BCI's closest peer and the multiples of a salt company under takeover offer, it would appear that in the longer term, BCI could be worth somewhere between \$1.75-\$2.45bn. This is a very large uplift from the current \$141m market cap.

In our opinion, BCI offers significant long-term upside, but still has several major hurdles to de-risk the Mardie project.

BCI confidence on the potential of Mardie progressing should give confidence to investors

EARLY WORKS COMMENCED

BCI recently raised \$48m, to help fund early works such as the accommodation camp and power. With \$80m cash in the bank and no debt, we don't expect BCI to raise again until immediately after FID, expected in 4Q FY21.

The fact that BCI is spending a significant amount on early works indicates how confident they are that the project will receive approvals and funding.

Forecast Earnings Changes

Iron Valley and the iron ore price has led to small earnings upgrades

Our Mardie forecasts remain unchanged and don't impact earnings until FY25.

Our Iron Valley forecasts reflect what we forecast for MIN in terms of revenue generated and a royalty paid to BCI. We expect strong Iron Valley volumes in the remaining three quarters of FY21, and an uplift in our assumed benchmark iron ore price lifts our forecasts for Iron Valley.

We continue to assume that production at Iron Valley ceases at the end of FY23. For production to continue past this date, requires another significant cut back. A decision on whether to make the cut back is likely to be made in early FY23 and will hinge on the price of iron ore at the time.

We also factor in the \$47.9m raised in 1Q21 at \$0.24/share. Previously we had assumed BCI raise \$315m in equity at \$0.20/share. We now assume BCI raises \$267m in equity in late FY21, at \$0.25/share. This is the same level of funding, just different time frame of raising. We expect several catalysts to occur before the next raising, hence the higher assumed price.

Our forecast changes impact EBITDA for FY21 to FY23 by \$3.8m / \$1.3m and \$2.6m respectively, see Figure 2. Forecast increases from Iron Valley are positive in that they reduce the amount of equity required to be raised to fund the Mardie project.

Figure 2: Forecast Changes

\$m	Old			New			Difference		
	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F
Revenue									
Iron Valley	96.6	81.2	66.6	101.8	85.7	72.7	5.2	4.5	6.1
Mardie	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenue	72.3	59.5	51.1	101.8	85.7	72.7	29.6	26.2	21.6
Iron Valley	24.2	18.7	11.1	27.3	19.8	13.8	3.1	1.1	2.7
Mardie	(10.0)	0.0	0.0	(10.0)	0.0	0.0	0.0	0.0	0.0
Corporate	(5.7)	(5.9)	(6.2)	(5.6)	(5.8)	(6.1)	0.1	0.1	0.1
EBITDA	8.5	12.8	4.9	11.7	13.9	7.7	3.2	1.1	2.8
Depreciation	(0.6)	(0.5)	(0.6)	(0.0)	(0.3)	(0.6)	0.6	0.2	(0.0)
Amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total EBIT	5.3	9.8	1.8	9.1	11.1	4.4	3.8	1.3	2.6
Net Interest	3.0	2.6	(1.5)	12.1	9.3	0.5	9.1	6.7	2.0
Tax	0.0	0.0	0.0	(5.9)	(5.7)	(1.4)	(5.9)	(5.7)	(1.4)
Abnormals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported NPAT	6.0	9.0	0.2	15.3	14.7	3.6	9.3	5.7	3.4
UNPAT Adj. Mardie	16.0	9.0	0.2	25.3	14.7	3.6	9.3	5.7	3.4
Underlying EPS (cps)	1.3	0.4	0.0	2.4	0.9	0.2	1.1	0.5	0.2
Iron Valley Assumptions									
I.V. Tonnes Sold mt	7.5	7.5	7.5	7.5	7.5	7.5	0.0	0.0	0.0
Benchmark Iron Ore US\$/t	105	90	80	108	95	85	3.0	5.0	5.0
I.V. Total Revenue	805	694	617	828	732	655	23.0	38.3	38.2
BCI Royalty Rate	5.0%	4.5%	3.0%	5.5%	4.5%	3.5%	0.5%	0.0%	0.5%

Source Pac Partners

Investment view and valuation

We use DCF to value BCI. DCF captures Mardie, Iron Valley and ascribes a value for future iron ore royalties not yet in operation.

DCF

Since BCI is still to reach FID and secure all the necessary approvals, we retain our 25% discount our DCF valuation. We leave our DCF assumptions unchanged.

Increases in forecast EBITDA from Iron Valley marginally increase our valuation.

Whilst \$0.25/share to raise at is higher than the current price, as well have seen with other similar projects, securing approvals and debt funding are likely to be major catalysts that should increase the share price before the capital is raised. Increasing the assumed share price for raising the equity is the main driver of our increase in our valuation, due to less shares being on issue. On an un-risked basis, our DCF valuation moves to \$0.61/share (from \$0.50).

Figure 3: DCF valuation

Present value of cashflows FY20 to FY29	(567)
Present value of terminal year cashflow	1,567
Net Cash at 1H20A	0
NPV of royalties, risk discounted 75%	19
Present value of equity	1,019
Diluted Shares on issue (post raisings)	1,665
Present value per share	\$0.61
25% discount factor	-\$0.15
Discounted DCF Valuation	\$0.46

Source: PAC Partners

We set our price target in line with our discounted DCF valuation, which results in a price target of \$0.46/share (from \$0.37). This is ~100% higher than the current share price. We retain our Speculative Buy recommendation.

INVESTMENT VIEW

BCI has two large near term catalysts, being:

- Environmental approval; and
- A potential indication of the size of NAIF funding that could be provided.

Other smaller catalysts like binding offtake agreements also exist that help de-risk Mardie.

We would also look to remove 25% discount to our DCF valuation post Mardie achieving FID, a material uplift to the valuation.

Relative to Australian SOP start-ups, BCI looks resounding value. We believe it is likely to materially re-rate upon the two catalysts mentioned above.

We recommend building a position now. Investors with a long-term horizon, BCI offers excellent value, noting that when fully ramped up and producing ~\$197m EBITDA, peer analysis indicates it could be worth between \$1.75-\$2.45bn.

Our target price of \$0.46 equates to ~100% upside from the current share price

Financial Model

BCI Minerals	Share Price (\$) 0.235				
PROFIT & LOSS (\$m)	FY19A	FY20A	FY21F	FY22F	FY23F
Operating Revenue	54.2	54.2	101.8	85.7	72.7
EBITDA	(2.6)	16.4	11.7	13.9	7.7
Depreciation	(0.1)	(0.6)	(0.0)	(0.3)	(0.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(5.2)	13.2	11.7	13.7	7.0
Net Interest	0.6	0.3	2.9	2.5	(1.6)
Income tax expense	1.5	(3.8)	(3.4)	(3.8)	(0.8)
NPAT pre abnormal	(3.1)	9.7	11.2	12.3	4.6
Abnormal Items	16.0	2.0	0.0	0.0	0.0
Reported NPAT	12.9	11.7	11.2	12.3	4.6
Normalised NPATA	5.1	17.9	18.6	9.8	2.1

BALANCE SHEET (\$m)	FY19A	FY20A	FY21F	FY22F	FY23F
Cash	33.7	41.5	338.9	163.1	13.1
PP&E	0.2	2.8	3.0	182.0	435.6
Debtors & Inventory	22.3	16.2	38.7	30.9	22.6
Intangibles	23.5	18.5	23.5	23.5	23.5
Other assets	50.7	57.0	37.8	35.2	14.6
Total Assets	130.4	136.1	442.0	434.8	509.6
Borrowings	0.0	0.0	(0.2)	1.3	77.8
Trade Creditors	18.1	18.3	22.4	17.1	13.1
Other Liabilities	8.7	13.7	19.6	6.4	6.7
Total Liabilities	26.8	32.0	41.8	24.8	97.6
Shareholder Equity	103.6	104.1	400.2	410.0	412.0

CASHFLOW (\$m)	FY19A	FY20A	FY21F	FY22F	FY23F
Operating EBITDA	(2.6)	16.4	11.7	13.9	7.7
Interest & Tax Paid	2.1	0.5	(0.5)	(1.3)	(2.4)
Working Cap.	(5.7)	(12.5)	(12.6)	(10.6)	4.5
Operating CF	(6.2)	4.4	(1.3)	2.0	9.8
Maintenance Capex	(0.2)	(3.3)	(0.2)	(0.2)	(0.2)
Expansion Capex	27.0	6.8	(2.5)	(179.1)	(236.1)
Free Cashflow (FCF)	20.6	7.8	(4.0)	(177.3)	(226.5)
Ord & Pref Dividends	0.0	0.0	0.0	0.0	0.0
Net Other	0.0	0.0	301.6	0.0	0.0
Net Cashflow	20.6	7.8	297.6	(177.3)	(226.5)

DIVISIONAL P&L (\$m)	FY19A	FY20A	FY21F	FY22F	FY23F
Iron Valley	54.2	54.2	101.8	85.7	72.7
Mardie	0.0	0.0	0.0	0.0	0.0
Other	0.5	0.4	2.9	2.5	0.2
Total Revenue	54.7	54.6	104.7	88.2	72.9

DIRECTORS	%		%	
Brian O'Donnell	0.1%	Jenny Bloom	0.0%	
Alwyn Vorster	0.9%	Michael Blakiston	0.0%	
Garret Dixon	0.0%			
		Total	1.0%	

Mkt Cap: (\$m)	141		Speculative Buy		
KEY RATIOS	FY19A	FY20A	FY21F	FY22F	FY23F
EBITDA Margin (%)	-4.8%	30.3%	11.5%	16.3%	10.5%
EBIT Margin (%)	-9.6%	24.4%	11.5%	15.9%	9.7%
NPAT Margin (%)	23.8%	21.6%	11.0%	14.4%	6.4%
ROE (%) y/e	-3.0%	9.3%	2.1%	2.3%	0.5%
ROA (%) y/e	-5.4%	14.0%	8.9%	4.1%	0.9%
ROIC (%) Av.	-6.5%	17.2%	11.8%	6.6%	1.2%
NTA per share (\$)	0.13	0.14	0.63	0.65	0.65
Eff Tax Rate (%)	32.9%	28.0%	28.0%	28.0%	28.0%
EBIT Interest Cover (x)	NM	NM	nm	nm	2.5
Gearing ND/ND+E (%)	(48%)	(66%)	(55%)	(65%)	14%
OPCF / EBITDA (%)	237%	27%	(11%)	14%	128%

VALUATION METRICS	FY19A	FY20A	FY21F	FY22F	FY23F
Dil. Normalised EPS (c)	1.3	4.4	1.8	0.6	0.1
Dil. Reported EPS (c)	3.3	2.9	0.8	0.6	0.1
Dil. Normalised PE (x)	18.2	5.3	13.1	40.2	190.6
Dil. Reported PE (x)	7.2	8.1	28.2	40.2	190.6
Enterprise Value (\$m)	107	99	-199	-21	205
EV / EBITDA (x)	-41.2	6.0	-16.9	-1.5	26.8
EV / EBITA (x)	-20.5	7.5	-16.9	-1.6	29.1
EV / EBIT (x)	-20.5	7.5	-16.9	-1.6	29.1
Price / NTA (x)	1.8	1.6	0.4	0.4	0.4
DPS (c)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0%	0%	0%	0%	0%
Free Cash / Share (cps)	5.2	1.9	(0.4)	(10.6)	-13.6
Price / FCF PS (x)	4.5	12.1	n/m	-2.2	-1.7
Net Debt / EBITDA (x)	13.0	(2.5)	(28.9)	(11.6)	8.4

GROWTH PROFILE (YoY)	FY19A	FY20A	FY21F	FY22F	FY23F
Sales (\$m)	62%	0%	88%	-16%	-15%
EBITDA (\$m)	-82%	-732%	-28%	19%	-45%
EBIT (\$m)	-70%	-353%	-11%	17%	-48%
Adj. NPAT (\$m)	-137%	250%	4%	-48%	-79%
Adj. EPS (c)	-136%	243%	60%	67%	-79%
DPS (c)	0%	0%	0%	0%	0%

DCF VALUATION		
PV of Cashflows FY20-29	(567)	Risk Free Rate 5.0%
PV of Term Year Cashflow	1,567	Equity Risk Premium 5.0%
Other	0	Equity Beta (x) 1.10
Net Cash at 1H20A	0	Cost of Equity 10.5%
PV of Equity	1,019	WACC 7.0%
PV of Equity per share	\$ 0.61	Terminal Growth 2.5%

SUBSTANTIAL HOLDERS	%	
Wroxby Pty Ltd	39.6%	Sandon Capital 6.1%

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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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