

BCI Minerals Limited

Bulk Materials - Producer

Australian Equity Research
20 July 2022

Rating
SPECULATIVE BUY
unchanged

Price Target
A\$0.49↓
from A\$0.70

BCI-ASX

Price
A\$0.22

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CEO departs, constructing in a challenging environment

Since the Mardie project sanction in October 2021, diesel prices have increased by 40% and anecdotal evidence regarding labour costs indicate 10+%. This combined with project design changes and a failure to achieve certain approvals in line with expectations will result in a material budget increase and delays to first production, according to the company, which expects to update the market further in late July.

We downgrade our price target to \$0.49ps (from \$0.70ps), but retain SPEC BUY rating.

CEO departs

Alwyn Vorster has decided to step down from his position by the end of 2022, after more than six years in the role. The BCI board has commenced an executive search, but clearly this will ratchet up the level of conjecture around how the project is progressing.

Bracing for a budget increase and first production delay

As noted in previous [research](#), we had anticipated a 15% increase to the \$1.2bn "all-in" budget but have lifted this to 20% in light of the current events, and have pushed out first salt on ship to 2H 2025. With construction having commenced only in February 2022, this is clearly a disappointing outcome, a situation compounded by the current lack of "a reliable cost estimate" for the remainder of the project.

Positive salt and SOP pricing signals

The commodity backdrop for Mardie remains very strong, and we continue to observe high pricing in salt with the average contract price of salt imported into Asia increasing by more than 20% to US\$50/t since this time last year. This is well above our US\$38/t FOB forecasts.

With regard to SOP, the situation is arguably even more attractive with prices having doubled and now consistently above US\$1,000/t in the important NW Europe market. With ~50% of the SOP market being supplied by Mannheim producers, in an inorganic process involving the reaction of MOP and sulphuric acid at high temperature, and sanctions potentially impacting ~38% of MOP supply, we increase our price forecast for SOP to US\$550/t (prior US\$500/t).

Funding gap thoughts

BCI has secured significant debt for Mardie including: 1) a 15-year NAIF facility for \$490mn; 2) an approved \$110mn facility from the EFA; and 3) \$310mn from Westpac and Industrial and Commercial Bank of China (including a \$120mn cost overrun facility and a \$50mn bank guarantee facility). This, in combination with, the \$260mn in equity raised, \$100mn from convertible notes (series 2 & 3 only) and \$100mn from cash reserves and future cash flow from the Iron Valley royalty meant, in our view, that BCI was fully funded for the \$1.2bn development of Mardie.

Assuming a 20% cost overrun, the company requires an additional \$240mn in debt and equity. Part of this could come from the sale of its holdings in Highfield Resources (current face value \$26.3mn) and Agrimin Resources (current face value \$12.5mn) plus additional bank debt, but there will also need to be sizeable fresh equity in our view.

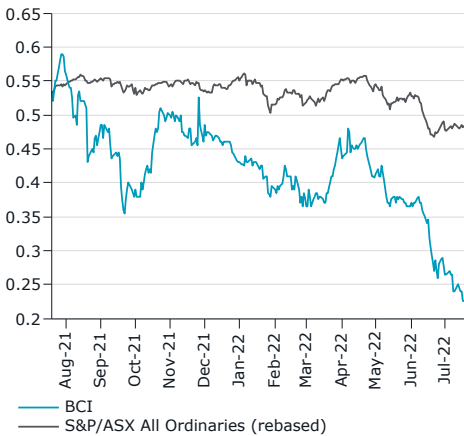
Current cash position

Based on BCI's 7 July ASX release, the company has current cash reserves of \$209mn plus other financial assets including the \$100mn convertible notes issued in December 2021. According to the company, this will enable BCI to continue construction work according to the new schedule in a balanced and responsible manner for the remainder of the current financial year.

Market Data

52-Week Range (A\$) :	0.17 - 0.62
Avg Daily Vol (000s) :	2,166
Market Cap (A\$M) :	264.4
Shares Out. (M) :	1,201.7
Dividend /Shr (A\$) :	0.00
Net Debt (Cash) (A\$M) :	(200.0)
Enterprise Value (A\$M) :	64.4

FYE Jun	2020A	2021A	2022E	2023E
EBITDA (A\$M)	3.6	25.0	6.6↓	2.5↓
Previous	-	-	11.1	11.2
Net Income (A\$M)	0.4	22.0	5.6↓	1.8↓
Previous	-	-	9.5	7.8



Source: FactSet

Priced as of close of business 19 July 2022

BCI Minerals Ltd is a resource company, which engages in the exploration and development of assets in the Pilbara region of Western Australia. It operates through the following segments: Iron Valley, Mardie, Buckland and Other. The Other segment include corporate and other assets. The company was founded in 2006 and is headquartered in West Perth, Australia.

Figure 1: Financial summary

FY Jun 30	2020A	2021A	2022E	2023E	2024E	2020	2021	2022E	2023E	2024E	
PROFIT & LOSS (A\$mn)						KEY ASSUMPTIONS					
Revenue	77	160	89	78	80	Salt (US\$/tonne)	30	30	30	38	38
Operational Costs & Royalty	-53	-91	-66	-63	-65	SOP (US\$/tonne)	500	500	525	552	560
Other Income	11	0	0	0	0	Iron ore fines (US\$/tonne)	90	155	98	90	92
Business Devt & Expl	-19	-34	-10	-6	-6	Iron ore lump (US\$/tonne)	105	165	108	100	102
Corporate & Other	-11	-10	-7	-7	-7	A\$/US\$	0.72	0.76	0.75	0.73	0.73
EBITDA	4	25	7	3	3	PRODUCTION					
DD&A	-3	-3	0	0	0	Salt (kt)	0	0	0	0	0
Other	0	0	0	0	0	SOP (kt)	0	0	0	0	0
EBIT	0	22	7	3	3	RESERVES AND RESOURCES					
Net Financing	0	0	0	0	-11	Iron Valley Resources	182.0Mt at 58.0% Fe				
NPBT	0	22	7	3	-9	Iron Valley Reserves	82.3Mt at 58.3% Fe				
Tax	0	0	-1	-1	3	PER SHARE DATA					
Normalised NPAT	0	22	6	2	-6	Average Shares (Diluted, M)	397	664	1202	1202	1202
Sig Items, Discon Ops & Mins	0	0	0	0	0	EOP Shares (Diluted, mn)	397	1202	1202	1202	1202
Reported NPAT	0	22	6	2	-6	Normalised EPS (A¢/sh)	0.1	3.3	0.5	0.1	-0.5
Effective income tax rate	0%	0%	15%	30%	30%	CF PS (A¢/sh)	1.1	1.4	4.4	0.1	-0.8
						FCF PS (A¢/sh)	2.0	-1.2	-12.8	-22.6	-27.6
CASHFLOW (A\$mn)						RATIOS					
Cash receipts	82	121	89	78	80	Dividend Yield	0%	0%	0%	0%	0%
Payments to suppliers	-78	-112	-83	-76	-77	PE	402.8	12.7	90.5	286.4	n/a
Interest received	0	0	0	0	0	PCF (Debt Adj)	38.0	30.2	9.6	370.5	n/a
Interest paid	0	0	0	0	-11	EV / EBITDA	35.4	17.0	48.6	234.5	343.5
Other	0	0	47	-1	0	Gearing (ND / ND + E)	n/a	n/a	n/a	16%	49%
Operating Cashflow	4	9	53	1	-9	Net Debt / EBITDA	-11.5x	-3.2x	-28x	34x	155x
Payments for PP&E	-3	-14	-25	-25	-25	Interest Cover	0x	550x	0.0x	0.0x	0.2x
Payments for Development	0	0	-176	-237	-291	ROE (Reported Profit / Av Equity)	0%	16%	2%	0%	n/a
Payments for Exploration	-4	-3	0	0	0	ROIC	1%	24%	2%	0%	-1%
Asset Sales / (Purchases)	11	0	0	0	0	ROACE	0%	10%	1%	0%	-1%
Other	0	0	-5	-10	-5	FCF Yield	5%	-3%	-30%	-54%	-66%
Investing Cashflow	3	-17	-207	-273	-322	DIVIDEND AND FRANKING					
Share Issuance / (Buyback)	0	46	260	0	0	Dividend (A¢/sh)	0	0	0	0	0
Drawdown / (Repayment) of Debt	0	0	129	0	331	Payout ratio	0%	0%	0%	0%	0%
Dividends	0	0	0	0	0	Franking Balance (A\$mn)	0	0	0	0	0
Other	0	0	0	0	0	VALUATION					
Financing Cashflow	0	46	389	0	331	Iron Valley	Risked	Unrisked			
Surplus / Defecit	8	38	235	-271	0	Mardie	0.05	0.05			
						EV adjustments	0.31	0.63			
BALANCE SHEET (A\$mn)						TOTAL	0.13	0.13			
Current Assets	58	137	340	70	71	TOTAL	0.49	0.80			
Non-Current Assets	78	91	292	555	871	PREMIUM/(DISCOUNT)	0.0	0.0			
Total Assets	136	228	633	625	942	PRICE TARGET	0.49	0.49			
Current Liabilities	19	39	39	39	39						
Non-Current Liabilities	13	16	145	145	477						
Total Liabilities	32	55	184	184	516						
Net Assets	104	173	449	441	426						
Total Cash	42	79	315	43	43						
Total Debt	1	0	129	129	460						
Net Debt	-41	-79	-186	86	417						

Source: Company Reports, Canaccord Genuity estimates

Breaking down our valuation downgrade

We have downgraded our price target to \$0.49ps, a 30% cut, driven by the following:

1. **Higher capex forecasts:** BCI's last published upfront capex budget for the Mardie project was \$1,001mn (nominal). For our modelling, we now utilise an upfront capex forecast of \$1,200mn, and will likely revise this when BCI releases its amended budget targeted for later this month.
2. **Higher opex forecasts:** BCI's last published AISC forecast was A\$21.50/t FOB and A\$337/t FOB for salt and SOP respectively. For our modelling, we have included a 20% contingency above BCI's forecast. It is unclear at this point whether BCI will be including updated AISC forecasts in its market update targeted for later this month.
3. **Production delay:** BCI has indicated that it is now "indicatively" targeting first salt on ship in 2H CY25 (DecQ24 prior). We have incorporated this delay into our modelling.
4. **Valuation risking:** Given the budget, timing and financing risk, we have adjusted our valuation risking from 75% to 50%.
5. **Higher SOP forecast a partial offset:** SOP prices have reached unprecedented levels (NWE spot now at >US\$1,000/t) on the back of robust demand and geopolitical issues that have roiled potash supply. With ~50% of the SOP market being supplied by Mannheim producers, in an inorganic process involving the reaction of MOP and sulphuric acid at high temperature, and sanctions potentially impacting ~38% of MOP supply, we increase our price forecast for SOP to US\$550/t (prior US\$500/t)

Our key assumptions are outlined in Figure 2

Figure 2: Key assumptions vs optimised DFS and updated guidance

	Optimised DFS	CG forecast
Mine life once ramped up	60 years	60 years
Upfront capex	A\$1,001	A\$1,200
Production rate Salt	4.4Mtpa	4.4Mtpa
Production rate SOP	120ktpa	120ktpa
First production Salt	2H 2025	2H 2025
AISC salt (FOB)	A\$21.5/t	A\$25.8/t
AISC SOP (FOB)	A\$337/t	A\$404/t
LT Salt price (FOB)	US\$39/t	US\$38/t
LT SOP price (FOB)	US\$573/t	US\$550
Forex	0.70	0.73

Source: Company reports, Canaccord Genuity estimates

Figure 3: Our sum-of the parts valuation for BCI

Asset	Equity %	Net Capacity ktpa	NPV A\$m	Risking %	Riskd NPV A\$m	Riskd NPV A\$ps
Iron Valley		7500	57	100%	57	0.05
PRODUCTION ASSETS					57	0.05
Mardie		5,350	752	50%	376	0.31
DEVELOPMENT ASSETS					376	0.31
RESOURCES					0	0.00
EXPLORATION					0	0.00
Net Debt, Balance sheet adj. & corp. overhead						0.13
Premium / (Discount)						0.00
Price Target						0.49

Source: Company reports, Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: July 19, 2022, 16:29 ET

Date and time of production: July 19, 2022, 10:41 ET

Target Price / Valuation Methodology:

BCI Minerals Limited - BCI

The price target of \$0.49 is set using a SOTP-based methodology.

Risks to achieving Target Price / Valuation:

BCI Minerals Limited - BCI

BCI's exploration properties may never be brought into production

The exploration for, and development of, mineral deposits involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. To mitigate this risk, the company has undertaken systematic and staged exploration and testing programs on its mineral properties and progressively undertaken a number of technical and economic studies with respect to its projects. However, given a formal decision on development is yet to be taken, there can be no guarantee that the properties will be ultimately brought into production.

BCI's activities could require further capital

The development of the Mardie Salt & SOP project could run over budget and require additional capital. Failure to obtain sufficient financing may result in delaying or indefinite postponement of any development of the company's properties or even a loss of property interest. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the company.

BCI is yet to receive all the required environmental permits for its optimised development plan

The company has received State and Federal approval for its original development proposal but has not received incremental approvals for the expanded optimised development. There is no guarantee that the company will receive these additional permits in a timely fashion.

BCI may be adversely affected by fluctuations in commodity prices

The price of salt and potash fluctuates and is affected by numerous factors beyond the control of the company. Future production and revenue, if any, from the company's mineral properties will be dependent upon the price of salt and potash being adequate to make these properties economic. The company does not currently engage in any hedging or derivative transactions to manage commodity price risk. This policy will be reviewed periodically going forward, as the company's operations change.

Global financial conditions may adversely affect BCI's growth and profitability

Many industries, including the mineral resource industry, are impacted by these market conditions. Some of the key impacts of the current financial market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations and high volatility in global equity, commodity, foreign exchange and precious metal markets, and a lack of market liquidity. Due to the current nature of the company's activities, a slowdown in the financial markets or other economic conditions may adversely affect the Company's growth and ability to finance its activities.

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Rating	Coverage Universe		IB Clients
	#	%	%
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Hold	126	13.35%	15.08%
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Speculative Buy	157	16.63%	38.85%
	944*	100.0%	

*Total includes stocks that are Under Review

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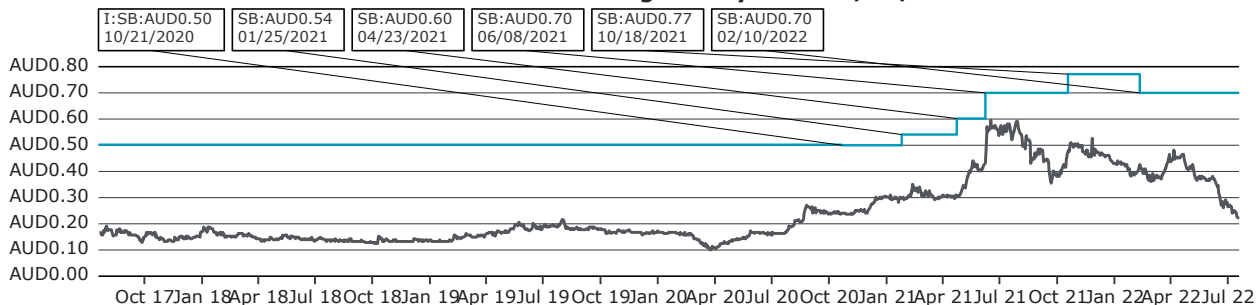
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