Canaccord Genuity Capital Markets

Raising Target Price

Australian Equity Research
23 April 2021

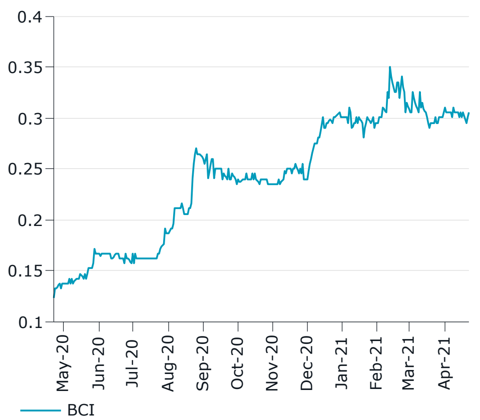
BCI Minerals Limited
Bulk Materials - Producer

Rating	Price Target
SPECULATIVE BUY *unchanged*	**A$0.60↑** *from A$0.54*
BCI-ASX	Price **A$0.29**

Market Data

52-Week Range (A$) :	0.16 - 0.68
Avg Daily Vol (000s) :	2,166
Market Cap (A$M) :	173.1
Shares Out. (M) :	597.0
Dividend /Shr (A$) :	0.00
Dividend Yield (%) :	0.0
Net Debt (Cash) (A$M) :	(81.5)
Enterprise Value (A$M) :	138

FYE Jun	2020A	2021E	2022E	2023E
EBITDA (A$M)	3.6	2.8↓	4.0↓	7.5↓
Previous	-	*3.9*	*4.8*	*8.5*
Net Debt (Cash) (A$M)	(41)	(36)↓	(90)↓	235↑
Previous	-	*(29)*	*(89)*	*197*



Source: FactSet

Priced as of close of business 22 April 2021

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.

Canaccord Genuity (Australia) Limited has received a fee as Joint Lead Manager to the BCI Minerals Limited Capital Raising announced 14 September 2020

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Mardie optimisation; economies of scale shine through

The optimised feasibility study (OFS) results for Mardie are a step change versus prior studies. BCI has increased salt capacity to 5.35Mtpa (+22%) and SOP capacity to 140ktpa (+17%). This has driven down capital intensity, improved overall economics and places Mardi in the lowest quartile for operating costs (after SOP by-product credits.

We upgrade our SOTP-based price target to $0.60 (50% risking of Mardi) and retain our SPECULATIVE BUY rating. This will be a slower burn than peers, but Mardi is a hugely strategic project which should garner increasing attention, in our view.

Upfront capex of $913mn

BCI estimates upfront capex for Mardi at A$913mn (+13% vs DFS), including A$325mn for infrastructure - a hurdle for the company, but given its 100% ownership (sell-down potential), engagement with NAIF (A$450mn facility conditionally approved), and well capitalised major shareholders, the company has a number of funding options, in our view. We have rephased our capex to reflect the OFS with subsequent revisions to our net cash forecasts.

Sometimes size does matter... particularly for economics

Despite a stronger USD forecast our unrisked NPV10 of Mardi has increased to $416mn (+22%) primarily due to the higher salt and SOP throughput which increases utilisation of the infrastructure assets (particularly the highly strategic port). This has more than offset the ~6% increase in operating costs due to wage and contractor inflation.

FID targeted for mid-2021

The company is targeting a final investment decision by mid-2021 with environmental approval, tenure and funding finalisation the last major hurdles. Over the coming months we will be looking for the company to obtain EPA endorsement, progress discussions with Santos/Chevron and conversion of some the non-binding offtake MOU's into binding agreements. The company is targeting first salt production of 3Q CY24E and first SOP in 2H CY25E (see Figure 6).

The salt market is strengthening, prices >US$40/t

After hitting a low of sub-US$35/t (CIF) in 2019, the salt price is grinding higher with the most recent prices in the US$42/t range as demand recovers (see Figure 8). With few material greenfield projects proposed we continue to see a material market window for Mardie.

Iron ore tailwinds continuing

BCI generated EBITDA of $10mn from its Mardi royalty in the December quarter (average realised price US$130/t) and we expect it to generate materially higher earnings in the MarQ as Iron Ore pricing increased to ~US$160/t. With similar Iron Ore royalty companies such as LIF-TSX trading on 5x EV/EBITDA, we believe this asset continues to be undervalued by the market.

CG modelling and assumptions

We have amended our modelling to match with the OFS, with three notable exceptions:

1. We use a weighted average FOB salt price of US$37/t;

2. We use a weighted average SOP price of US$500/t; and

2. We use an USD:AUD forecast of 0.75 (BCI using 0.70).

This yields an IRR of 14%, 8.0-year payback, A$220mn project EBITDA (salt & SOP) and an unrisked NPV10 of $436mn (we risk this at 90% for our valuation).

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Figure 1: Financial summary

FY Jun 30	2019A	2020A	2021E	2022E	2023E
PROFIT & LOSS (A$mn)					
Revenue	54	77	94	87	84
Operational Costs & Royalty	-42	-53	-74	-69	-62
Other Income	20	11	2	2	2
Business Devt & Expl	-10	-19	-13	-10	-10
Corporate & Other	-8	-11	-6	-7	-7
EBITDA	**14**	**4**	**3**	**4**	**8**
DD&A	-3	-3	-5	0	0
Other	0	0	0	0	0
EBIT	**11**	**0**	**-2**	**4**	**8**
Net Financing	0	0	0	0	0
NPBT	**11**	**0**	**-2**	**4**	**8**
Tax	2	0	0	-1	-2
Normalised NPAT	**13**	**0**	**-1**	**3**	**5**
Sig Items, Discon Ops & Mins	0	0	0	0	0
Reported NPAT	**13**	**0**	**-1**	**3**	**5**
Effective income tax rate	-13%	0%	24%	15%	30%
CASHFLOW (A$mn)					
Cash receipts	40	82	94	87	84
Payments to suppliers	-48	-78	-93	-85	-78
Interest received	1	0	0	0	0
Interest paid	0	0	0	0	0
Other	2	0	-8	-1	-1
Operating Cashflow	**-6**	**4**	**-8**	**1**	**4**
Payments for PP&E	0	0	0	0	0
Payments for Development	0	0	-33	-236	-313
Payments for Exploration	-3	-10	-10	-10	-10
Asset Sales / (Purchases)	27	0	0	0	0
Other	3	14	0	0	-6
Investing Cashflow	**27**	**3**	**-43**	**-246**	**-329**
Share Issuance / (Buyback)	0	0	48	300	0
Drawdown / (Repayment) of Debt	0	0	0	0	325
Dividends	0	0	0	0	0
Other	0	0	-3	0	0
Financing Cashflow	**0**	**0**	**45**	**300**	**325**
Surplus / Defecit	21	8	-6	55	0
BALANCE SHEET (A$mn)					
Current Assets	64	70	72	128	129
Non-Current Assets	79	86	124	370	694
Total Assets	**143**	**156**	**197**	**498**	**822**
Current Liabilities	18	19	19	19	35
Non-Current Liabilities	8	13	12	12	321
Total Liabilities	**27**	**32**	**31**	**31**	**356**
Net Assets	**117**	**124**	**166**	**467**	**466**
Total Cash	34	42	36	90	90
Total Debt	0	1	0	0	325
Net Debt	**-34**	**-41**	**-36**	**-90**	**235**

	2019	2020	2021E	2022E	2023E
KEY ASSUMPTIONS					
Salt (US$/tonne)	30	30	30	30	38
SOP (US$/tonne)	500	500	500	525	509
Iron ore fines (US$/tonne)	75	90	101	81	92
Iron ore lump (US$/tonne)	93	105	130	132	102
A$/US$	0.71	0.72	0.76	0.75	0.75
PRODUCTION					
Salt (kt)	0	0	0	0	0
SOP (kt)	0	0	0	0	0
RESERVES AND RESOURCES					
Iron Valley Resources		182.0Mt at 58.0% Fe			
Iron Valley Reserves		82.3Mt at 58.3% Fe			
PER SHARE DATA					
Average Shares (Diluted, M)	199	397	689	1347	1347
EOP Shares (Diluted, mn)	397	397	1347	1347	1347
Normalised EPS (A¢/sh)	6.5	0.1	-0.2	0.3	0.4
CF PS (A¢/sh)	-3.1	1.1	-1.1	0.1	0.3
FCF PS (A¢/sh)	10.4	2.0	-7.4	-18.2	-24.1
RATIOS					
Dividend Yield	0%	0%	0%	0%	0%
PE	4.6	313.5	n/a	117.6	76.5
PCF (Debt Adj)	n/a	27.2	n/a	563.1	94.4
EV / EBITDA	6.1	22.0	131.9	77.6	84.6
Gearing (ND / ND + E)	n/a	n/a	n/a	n/a	33%
Net Debt / EBITDA	-2.4x	-11.5x	-12.7x	-22x	31x
Interest Cover	0.0x	12x	-65x	0.0x	0.0x
ROE (Reported Profit / Av Equity)	22%	0%	n/a	1%	1%
ROIC	16%	0%	n/a	1%	1%
ROACE	13%	0%	n/a	1%	1%
FCF Yield	35%	7%	-25%	-61%	-80%
DIVIDEND AND FRANKING					
Dividend (A¢/sh)	0	0	0	0	0
Payout ratio	0%	0%	0%	0%	0%
Franking Balance (A$mn)	0	0	0	0	0
VALUATION		**Risked**		**Unrisked**	
Iron Valley		0.14		0.14	
Mardie		0.35		0.70	
EV adjustments		0.11		0.11	
TOTAL		**0.60**		**0.81**	
PREMIUM/(DISCOUNT)		0.0			
PRICE TARGET		**0.60**			

Source: Company reports, Canaccord Genuity estimates

Optimised feasibility study update

Updated key inputs in our modelled development scenario are outlined in Figure 2. Our assumptions are largely in line with the optimised DFS, which we view as robust (and conservative) and believe there is potential upside to our numbers.

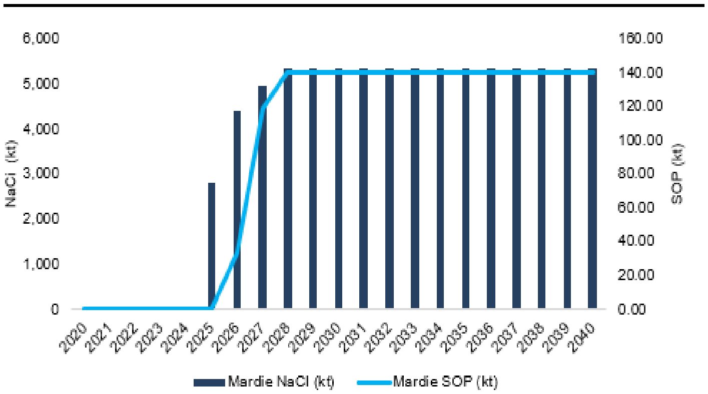
Figure 2: Optimised DFS outcomes and CG assumptions

	DFS	Optimised DFS	CG forecast
Mine life once ramped up	60 years	60 years	60 years
upfront capex	A$779	A$913	A$913
Sustaining capex Salt	A$1/t	A$0.9/t	A$0.9/t
Sustaining capex SOP	A$15/t	A$11.8/t	A$11.8/t
Production rate Salt	4.4Mtpa	5.35Mtpa	5.35Mtpa
Production rate SOP	120ktpa	140ktpa	140ktpa
First production Salt	Mid 2024	late 2024	late 2024
AISC salt (FOB)	A$20/t	A$21.5/t	A$21.5/t
AISC SOP (FOB)	A$310/t	A$337/t	A$337/t
LT Salt price (FOB)	US$34/t	US$41/t	US$37.5/t
LT SOP price (FOB)	US$501/t	US$507/t	US$500
LT Forex	0.68	0.70	0.75

Source: Company reports, Canaccord Genuity estimates

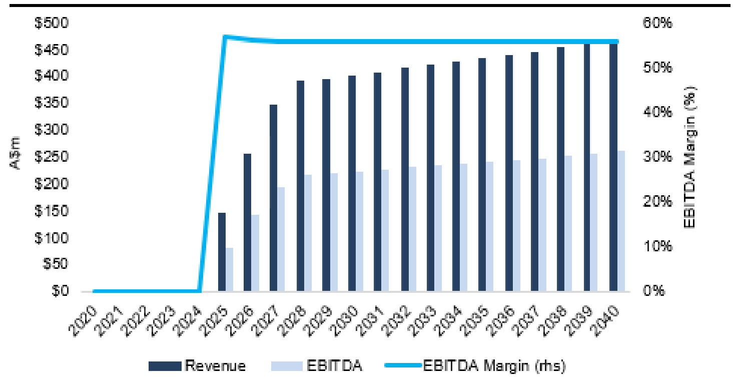
Figures 3 and 4 below illustrate our assumed production profile at Mardie, along with are modelled revenue and EBITDA profile out to 2040 (60-year life used for valuation).

Figure 3: Mardie NaCl and SOP production profile



Source: Company reports, Canaccord Genuity estimates

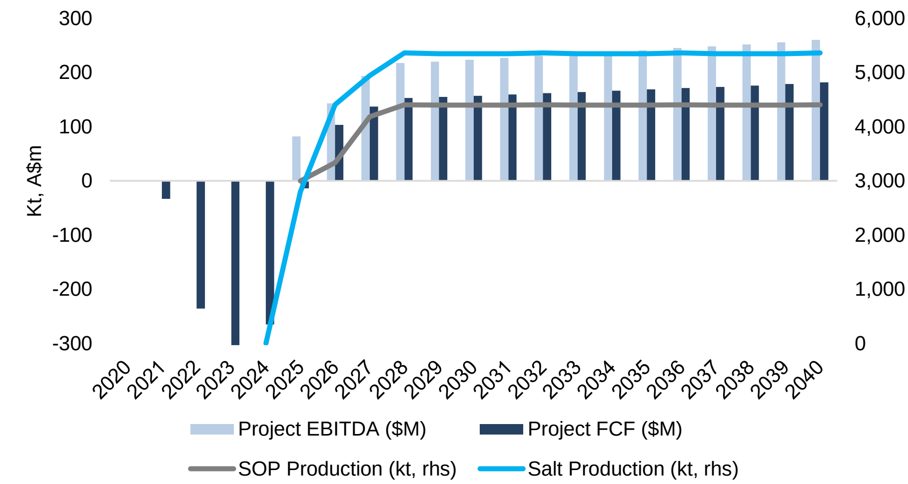
Figure 4: Mardie revenue and EBITDA profile as modelled



Source: Company reports, Canaccord Genuity estimates

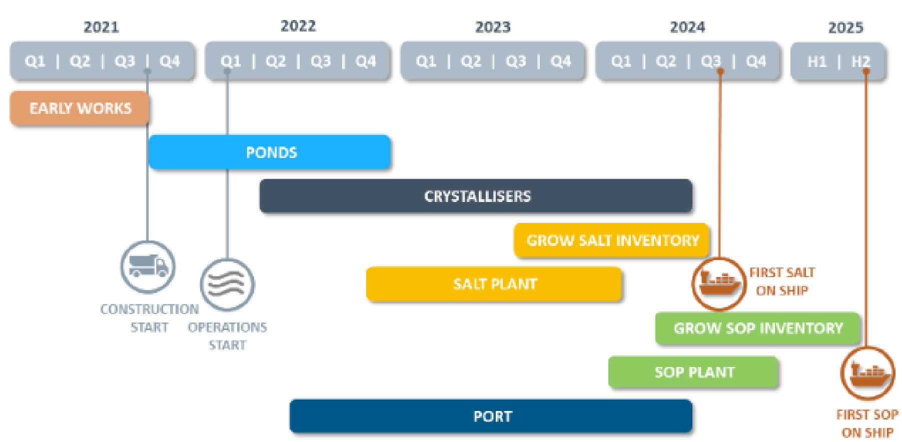
Our post-tax project cash flow estimates for the construction period and out to 2040 are shown in Figure 5. After a ~3.5-year construction period starting in 2021, we forecast first salt sales to commence in late 2024 and SOP sales commence in 2H 2025. We forecast free cash flows to become positive in 2026, ramping up to approximately $160m per annum by 2028 and maintained through the remainder of the 60+ year project.

Figure 5: EBITDA/FCF YoY over first 40 years at Mardie



Source: Company reports, Canaccord Genuity estimates

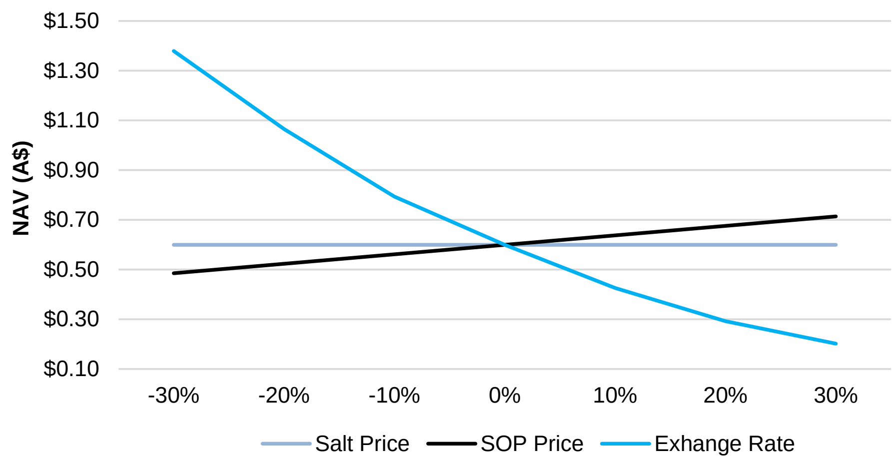
Figure 6: Project schedule



Source: Company report

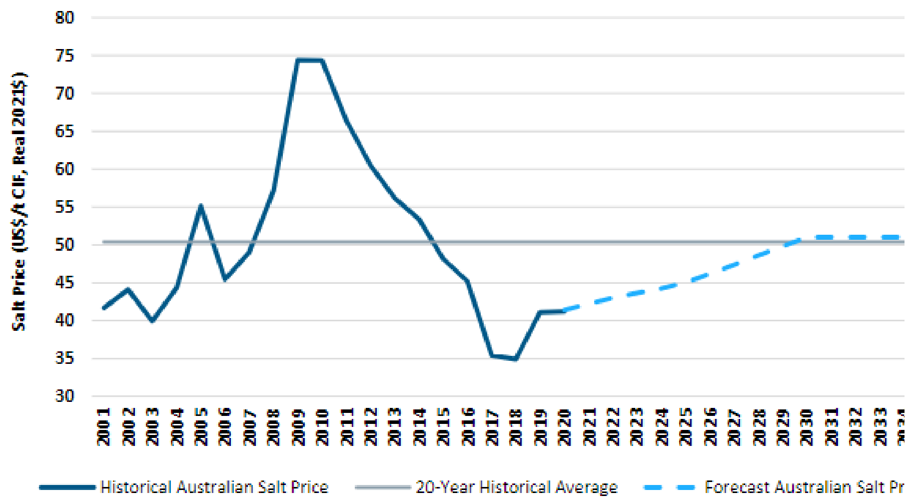
Our valuation is mostly sensitive to changes in the exchange rate and salt price assumptions, as approximately 75% of the projects revenue is generated by salt which is priced in US dollars. The project valuation is less sensitive to changes in the SOP price assumption, due to the lower amount of revenue generated from the product.

Figure 7: Risked valuation sensitivity – SOP price, salt price and USD:AUD



Source: Canaccord Genuity estimates

Figure 8: Historic salt price and Roskill forecast



Source: Company reports, Roskill

Figure 9: Our sum-of the parts valuation for BCI

Asset	Equity %	Net Capacity ktpa	NPV A$mn	Risking %	Risked NPV A$mn	Risked NPV A$ps
Iron Valley		7500	81.5	100%	82	0.14
PRODUCTION ASSETS					**82**	**0.14**
Mardie		5,350	415.8	50%	208	0.35
DEVELOPMENT ASSETS					**208**	**0.35**
RESEOURCES		**0**			**0.0**	**0.00**
EXPLORATION		**0**			**0.0**	**0.00**
Net Debt, Balance sheet adj. & corp. overhead						**0.11**
Premium / (Discount)						0.00
Price Target						**0.60**

Source: Company reports, Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: April 22, 2021, 20:52 ET

Date and time of production: April 22, 2021, 20:52 ET

Target Price / Valuation Methodology:

BCI Minerals Limited - BCI

The price target of A$0.60 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 will require further capital

The development of the company's exploration properties will require substantial additional financing. Failure to obtain sufficient financing may result in delaying or indefinite postponement of exploration, and 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 the required environmental permits

An ERD has been submitted and the public consultation period is now closed, but there is no guarantee that the company will receive the requisite 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.

Distribution of Ratings:

Global Stock Ratings (as of 04/22/21)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	602	64.39%	40.37%
Hold	162	17.33%	20.37%
Sell	14	1.50%	28.57%
Speculative Buy	144	15.40%	68.06%
	935*	100.0%	

*Total includes stocks that are Under Review

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SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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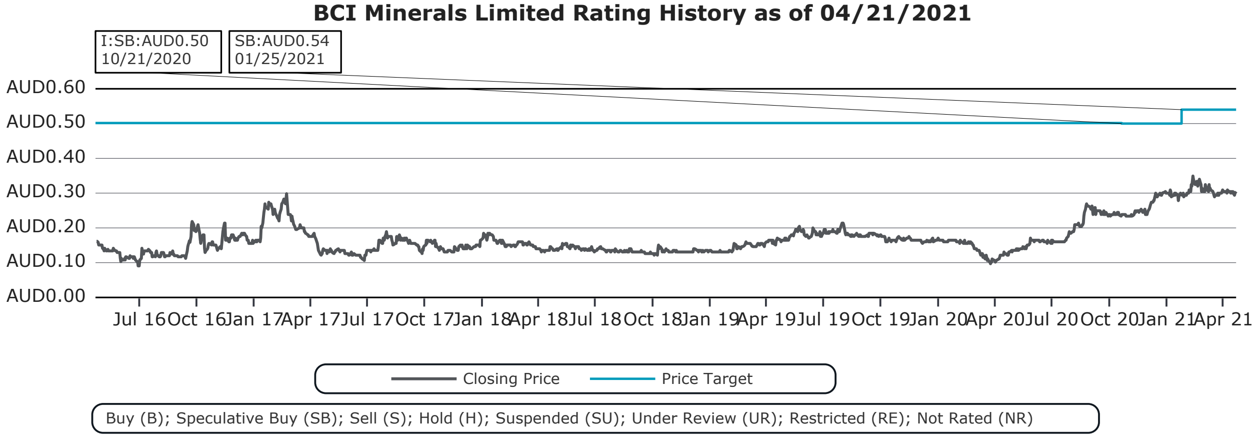
Canaccord Genuity (Australia) Limited has received a fee as Joint Lead Manager to the BCI Minerals Limited Capital Raising announced 14 September 2020

BCI Minerals Limited Rating History as of 04/21/2021



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