

BCI Minerals (BCI)

FY20 Result: Lifting FY21 forecasts

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Heath Andrews
handrews@pacpartners.com.au
+61 3 9114 7415

KEY POINTS

- As BCI had already guided, its result of EBITDA of \$8.3m and the result was in line.
- The highlight of the FY20 result was that BCI was able to increase cash by \$7.8m in FY20 to \$41.5m. This was done while it spent \$18.7m on progressing Mardie. The benefit of having a high cash generating business (Iron Valley) to fund Mardie through to FID is under appreciated, in our opinion.
- At 30th June 2020, benchmark iron ore pricing was US\$101.5/t. Today it is US\$126.5/t, up 25% in FY21 to date. BCI has a sliding scale royalty rate that equates to the EBITDA generated from Iron Valley. The higher the iron ore price, the higher the royalty rate. We forecast that Iron Valley will post a new record result for BCI in FY21.
- Our forecasts for BCI incorporate US\$105/t for benchmark iron ore in FY21, some US\$21/t below current pricing. In addition, Mineral Resources is forecasting 7.5-8.5mt of shipments (we are at 7.5mt) for FY21. We believe it is likely that BCI will beat our Iron Valley forecasts in FY21 at this point in time.
- Our forecast changes have lifted EBITDA for FY21/23 by \$11.9m / \$11.5m and \$4.9m respectively. Due to the extra \$28m of EBITDA forecast, we have lowered the amount of equity raised to fund Mardie from \$325m to \$315m.

INVESTMENT VIEW

Due to the long lead time to reach steady state production (FY28), we use DCF to value BCI. We factor in a \$315m capital raising at \$0.20/share in late FY21. This results in an un-risked valuation of \$0.58/share (from \$0.50). We factor in a 25% discount to account for the project's development stage. This results in a price target of \$0.44/share (from \$0.37), 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:

- Achieving environmental approval; and
- Securing a tranche of funding from NAIF (equity conditions precedent likely).

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. 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.

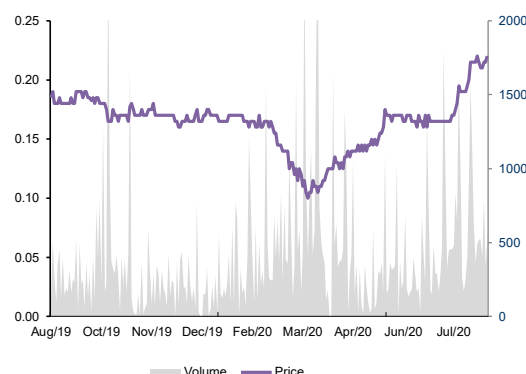
Recommendation	Speculative BUY
Previous Recommendation	Spec. Buy \$0.37
Risk Rating	High
Current Share Price	\$0.
12 Month Price Target	\$0.44/share
Price target Methodology	DCF
Total Return (Capital + Yield)	100%
Mardie steady state EBITDA	\$200m pa
Market Capitalisation	\$m
Liquidity	\$0.1m/day

Financial Forecasts & Valuation Metrics

BCI Y/E Jun A\$m	FY20A	FY21F	FY22F	FY23F
Revenue	77.3	96.6	81.2	66.6
EBITDA	8.3	8.5	12.8	4.9
EPS Adj (c)	4.7	1.3	0.5	0.0
EPS Growth	266%	72%	66%	-98%
DPS (c)	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	5.5	(30.4)	(6.3)	30.8
PE Underlying (x)	4.6	16.5	48.8	1991.4
Gearing (%)	-66%	-538%	-68%	13%

Source: PAC Partners estimates

12 Month Share Price and Volume



Key Milestones

- DFS publication, just 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 (target Q2 2021)
- Further trial work and optimisation studies reducing the risk of cost overruns
- Re-rating as the prospect of Mardie gets factored in

FY20 Results Summary

The FY20 result was already guided, hence it was in line with expectations, see Figure 1. There were a few abnormal items, being:

- Profit on the sale of Buckland of \$10.2m;
- Impairment of the relinquished Cape Preston East port rights of \$5m (linked to the Buckland sale); and
- \$18.7m of costs against Mardie, which arguably could have been capitalised. We understand Mardie costs will be capitalised post FID.

Due to BCI not being about the FY20 result, we have left our analysis on a statutory basis to reduce complications and keep it in line with what BCI have indicated as its results, but note that underlying EBITDA could have been higher than indicated if treatment of Mardie had been different.

Figure 1: FY20 result summary

(\$m)	2H20A			FY19A	FY20A	YoY Chg
	1H20A	2H20A	1H20A %			
Iron Valley	39.1	37.7	(4%)	54.2	76.8	42%
Mardie	0.0	0.0	NM	0.0	0.0	NM
Eliminations	0.3	0.7	131%	0.0	0.5	NM
Operating Revenue	39.4	38.3	(3%)	54.2	77.3	43%
Divisional EBITDA						
Iron Valley	10.9	12.1	11%	12.3	23.0	87%
Mardie	(11.2)	(7.5)	(33%)	(8.2)	(18.7)	128%
Unallocated Expenses	(2.7)	7.0	(359%)	(4.2)	(5.9)	40%
Total EBITDA	(3.2)	11.5	(461%)	(2.6)	8.3	(422%)
Depreciation & Amortisation	(1.1)	(7.3)	551%	(3.2)	(8.4)	162%
Total EBIT	(4.3)	4.3	(199%)	(5.8)	(0.1)	(99%)
Net Interest	0.0	0.4	NM	0.6	0.4	(32%)
Profit before tax	(4.3)	4.7	(209%)	(5.2)	0.4	(107%)
Tax	0.0	0.0	NM	1.5	0.0	(100%)
NPAT	(4.3)	4.7	(209%)	(3.7)	0.4	(110%)
Abnormals Net of Tax	0.0	0.0	NM	16.0	0.0	(100%)
Tax on abnormals	0.0	0.0	NM	0.0	0.0	NM
Reported NPAT	(4.3)	4.7	(209%)	12.3	0.4	(97%)
UNPAT excl. Amort.	(4.1)	4.5	(209%)	(3.1)	0.4	(112%)
NPATA	(4.3)	4.7	(209%)	(3.7)	0.4	(110%)
EPS	(1.0)	1.1	(209%)	(0.8)	0.1	(112%)
DPS (cps)	0.0	0.0		0.0	0.0	NM
Operating Cashflow	2.6	1.8	(31%)	(6.2)	4.4	(171%)
Op. CF / EBITDA	-81%	15%		237%	53%	
Gearing (ND/ND+E)	-52%	-66%		-66%	-66%	

BCI and PAC Partners

Source:

KEY FEATURES OF THE RESULT

Iron Valley EBITDA of \$23m (pre rebate in Q4) is a record. This was produced off 6.7mt of sales.

Net cash increased by \$7.8m to \$41.5m. With no debt, BCI is well capitalised to fund further activities on Mardie through to FID.

The result was clean and the outlook for Iron Valley is promising, more on this in forecast changes over the page.

Forecast Earnings Changes

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. The recent increase in the benchmark iron ore price (currently US\$125.5/t, from US\$101/t at 30th June) led us to upgrade our FY21 forecast iron ore price by US\$18/t. As BCI has a sliding scale royalty rate (it is higher when the A\$ iron ore price is higher), we have lifted assumed royalty rate received by BCI, increasing EBITDA forecasts.

Our forecast changes impact EBITDA for FY21 to FY23 by \$11.9m / \$11.5m and \$4.9m respectively, see Figure 2.

Figure 2: Forecast Changes

\$m	Old			New			Difference		
	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F
Revenue									
Iron Valley	72.3	59.5	51.1	96.6	81.2	66.6	24.3	21.7	15.5
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	96.6	81.2	66.6	24.3	21.7	15.5
Iron Valley	12.0	7.0	6.0	24.2	18.7	11.1	12.1	11.7	5.1
Mardie	(10.0)	0.0	0.0	(10.0)	0.0	0.0	0.0	0.0	0.0
Corporate	(5.5)	(5.7)	(6.0)	(5.7)	(5.9)	(6.2)	(0.2)	(0.2)	(0.2)
EBITDA	(3.4)	1.3	0.1	8.5	12.8	4.9	11.9	11.5	4.9
Depreciation	(0.1)	(0.3)	(0.7)	(0.6)	(0.5)	(0.6)	(0.5)	(0.1)	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total EBIT	(6.0)	(1.6)	(3.2)	5.3	9.8	1.8	11.4	11.4	5.0
Net Interest	1.7	0.2	(2.4)	3.0	2.6	(1.5)	1.3	2.4	0.9
Tax	0.0	0.0	0.0	(2.3)	(3.5)	(0.1)	(2.3)	(3.5)	(0.1)
Abnormals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported NPAT	(4.4)	(1.4)	(5.6)	6.0	9.0	0.2	10.4	10.4	5.8
UNPAT Adj. Mardie	5.6	(1.4)	0.0	16.0	9.0	0.2	10.4	10.4	0.2
Underlying EPS (cps)	0.5	(0.1)	0.0	1.3	0.4	0.0	0.9	0.5	0.0
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	87	80	70	105	90	80	18.0	10.0	10.0
I.V. Total Revenue	669.3	582.9	501	805	693.8	616.7	135.7	110.9	115.7
BCI Royalty Rate	3.0%	2.0%	2.0%	5.0%	4.5%	3.0%	2.0%	2.5%	1.0%

Source Pac Partners

The impact of the iron ore changes to BCI near term cash generation is material and in theory the longer the iron ore price remains high, the lower the amount of equity required to fund the Mardie project. In total, we assume Iron Valley contributes an extra \$28m of EBITDA over its estimated life. We assume Iron Valley operations cease at the end of FY23 (unchanged).

Investment view and valuation

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

DCF

Since Mardie has a very detailed DFS published, but is still to reach FID and secure all the necessary approvals, we discount our DCF valuation by 25% to represent risks around its stage of development on Mardie. We model BCI for 10 years, then use a terminal value. We use a terminal growth rate of 2.5%, which is likely to represent commodity price increases due to predicted supply shortfalls. We leave our DCF assumptions unchanged, though roll our DCF forward.

The amount of equity raised and the price at which it is raised influences the DCF valuation. We still assume BCI raises at \$0.20/share (several major catalysts are likely to occur before they raise). With the extra \$28m of EBITDA secured from Iron Valley, we lower the estimated amount of equity to raise to \$315m (from \$325).

Figure 3: DCF valuation

Present value of cashflows FY21 to FY30	(464)
Present value of terminal year cashflow	1,555
Net Cash at FY20A	42
NPV of royalties, risk discounted 75%	19
Present value of equity	1,152
Diluted Shares on issue (post raisings)	1,973
Present value per share	\$0.58
25% discount factor	-\$0.15
Discounted DCF Valuation	\$0.44

Source: PAC Partners

We set our price target in line with our discounted DCF valuation, which results in a price target of \$0.44/share (from \$0.37). This is 100% higher than the current share price. We retain our Speculative Buy recommendation. The extra earnings from Iron Valley and the lower forecast number of shares on issue required to complete the Mardie project increase our valuation.

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.

Both could help re-rate BCI. We would also look to remove 25% discount to our DCF valuation post Mardie achieving FID.

Relative to Australian listed SOP companies, BCI is a standout in terms of valuation, plus it has a cash generating operation (Iron Valley) that appears to have more upside risk (both volume and price) than downside relative to our forecasts. In our opinion, now is an excellent time to start building a position.

Financial Model

BCI Minerals						Share Price (\$)	0.220	Mkt Cap: (\$m)			88	Speculative Buy						
PROFIT & LOSS (\$m)	FY19A	FY20A	FY21F	FY22F	FY23F	KEY RATIOS			FY19A	FY20A	FY21F	FY22F	FY23F					
Operating Revenue	54.2	77.3	96.6	81.2	66.6	EBITDA Margin (%)	-4.8%	10.8%	8.8%	15.8%	7.4%							
EBITDA	(2.6)	8.3	8.5	12.8	4.9	EBIT Margin (%)	-9.6%	-0.1%	8.1%	15.2%	6.5%							
Depreciation	(0.1)	0.0	(0.6)	(0.5)	(0.6)	NPAT Margin (%)	23.8%	0.5%	8.8%	14.1%	4.1%							
Amortisation	0.0	0.0	0.0	0.0	0.0	ROE (%) y/e	-3.0%	0.4%	1.4%	2.1%	0.1%							
EBIT	(5.2)	(0.1)	7.9	12.3	4.3	ROA (%) y/e	-5.4%	-0.1%	5.3%	3.6%	0.4%							
Net Interest	0.6	0.4	2.9	2.6	(1.5)	ROIC (%) Av.	-6.5%	-0.1%	6.9%	5.9%	0.5%							
Income tax expense	1.5	0.0	(2.3)	(3.5)	(0.1)	NTA per share (\$)	0.20	0.21	0.98	1.00	1.00							
UNPAT pre abnormal	(3.1)	0.4	8.5	11.4	2.7	Eff Tax Rate (%)	32.9%	0.0%	28.0%	28.0%	28.0%							
Abnormal Items	16.0	0.0	0.0	0.0	0.0	EBIT Interest Cover (x)	NM	NM	nm	nm	1.1							
Reported NPAT	12.9	0.4	8.5	11.4	2.7	Gearing ND/ND+E (%)	(48%)	(66%)	(538%)	(68%)	13%							
Normalised NPATA	5.1	19.1	15.9	8.9	0.2	OPCF / EBITDA (%)	237%	53%	107%	22%	81%							
BALANCE SHEET (\$m)						FY19A	FY20A	FY21F	FY22F	FY23F	VALUATION METRICS			FY19A	FY20A	FY21F	FY22F	FY23F
Cash	33.7	41.5	345.3	168.9	8.9	Dil. Normalised EPS (c)	1.3	4.7	1.3	0.5	0.0							
PP&E	0.2	0.7	2.1	180.9	434.6	Dil. Reported EPS (c)	3.3	0.1	0.5	0.5	0.0							
Debtors & Inventory	22.3	16.2	20.9	15.9	11.4	Dil. Normalised PE (x)	17.0	4.6	16.5	48.8	1991.4							
Intangibles	23.5	18.5	18.5	18.5	18.5	Dil. Reported PE (x)	6.8	235.5	44.2	48.8	1991.4							
Other assets	50.7	59.1	59.3	56.8	36.3	Enterprise Value (\$m)	54	46	-258	-81	151							
Total Assets	130.4	136.1	446.2	441.1	509.7	EV / EBITDA (x)	-20.8	5.5	-30.4	-6.3	30.8							
Borrowings	0.0	0.0	(0.0)	0.0	72.3	EV / EBITA (x)	-10.4	-888.8	-32.8	-6.6	35.2							
Trade Creditors	18.1	18.3	21.3	16.2	12.0	EV / EBIT (x)	-10.4	-888.8	-32.8	-6.6	35.2							
Other Liabilities	8.7	13.7	15.5	6.4	6.7	Price / NTA (x)	1.1	1.0	0.2	0.2	0.2							
Total Liabilities	26.8	32.0	36.7	22.6	91.0	DPS (c)	0.0	0.0	0.0	0.0	0.0							
Shareholder Equity	103.6	104.1	409.5	418.4	418.7	Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%							
CASHFLOW (\$m)						FY19A	FY20A	FY21F	FY22F	FY23F	GROWTH PROFILE (YoY)			FY19A	FY20A	FY21F	FY22F	FY23F
Operating EBITDA	(2.6)	8.3	8.5	12.8	4.9	Sales (\$m)	62%	43%	25%	-16%	-18%							
Interest & Tax Paid	2.1	0.5	0.6	(0.9)	(1.6)	EBITDA (\$m)	-82%	-422%	1%	51%	-62%							
Working Cap.	(5.7)	(4.4)	0.0	(9.1)	0.6	EBIT (\$m)	-70%	-99%	nm	57%	-65%							
Operating CF	(6.2)	4.4	9.1	2.8	4.0	Adj. NPAT (\$m)	-137%	273%	-17%	-44%	-98%							
Maintenance Capex	(0.2)	(3.3)	(2.0)	(0.2)	(0.2)	Adj. EPS (c)	-136%	266%	72%	66%	-98%							
Expansion Capex	27.0	6.8	(2.5)	(179.1)	(236.2)	DPS (c)	0%	0%	0%	0%	0%							
Free Cashflow (FCF)	20.6	7.8	4.6	(176.4)	(232.3)	DCF VALUATION												
Ord & Pref Dividends	0.0	0.0	0.0	0.0	0.0	PV of Cashflows FY20-29	(464)	Risk Free Rate	5.0%									
Net Other	0.0	0.0	299.3	0.0	0.0	PV of Term Year Cashflow	1,555	Equity Risk Premium	5.0%									
Net Cashflow	20.6	7.8	303.8	(176.4)	(232.3)	Other	0	Equity Beta (x)	1.10									
DIVISIONAL P&L (\$m)						FY19A	FY20A	FY21F	FY22F	FY23F	Net Cash at FY20A	42	Cost of Equity	10.5%				
Iron Valley	54.2	76.8	96.6	81.2	66.6	PV of Equity	1,152	WACC	7.0%									
Mardie	0.0	0.0	0.0	0.0	0.0	PV of Equity per share	\$ 0.58	Terminal Growth	2.5%									
Other	0.5	0.5	2.9	2.6	0.2	SUBSTANTIAL HOLDERS			%	%								
Total Revenue	54.7	77.3	99.5	83.8	66.8	Wroxby Pty Ltd	29.2%	Sandon Capital	5.5%									
DIRECTORS						%		%										
Brian O'Donnell	0.2%	Jenny Bloom	0.0%															
Alwyn Vorster	1.3%	Michael Blakiston	0.0%															
		Total			1.5%													

CONTACT INFORMATION

CORPORATE FINANCE	RESEARCH	DEALING
BROOKE PICKEN Chief Operating Officer bpicken@pacpartners.com.au 03 9114 7402	CRAIG STRANGER Managing Director cstranger@pacpartners.com.au 03 9114 7405	JAMES WILSON Executive Director, Institutional Sales – Sydney jwilson@pacpartners.com.au 02 9134 9111
SEAN KENNEDY Corporate Finance skennedy@pacpartners.com.au 03 9114 7403	PAUL JENSZ Executive Director, Research pjensz@pacpartners.com.au 03 9114 7444	PHIL CAWOOD Institutional Sales – Sydney pcawood@pacpartners.com.au 02 9134 9122
ANTHONY STANI Corporate Finance astani@pacpartners.com.au 03 9114 7401	HEATH ANDREWS Senior Analyst handrews@pacpartners.com.au 03 9114 7415	MARK PASHLEY Head of Sale Trading – Sydney mpashley@pacpartners.com.au 02 9134 9177
CHARLES REED Corporate Finance creed@pacpartners.com.au 03 9114 7406	MARK YARWOOD Senior Analyst myarwood@pacpartners.com.au 02 9134 9188	SEBASTIAN JURD Senior Advisor – Sydney sjurd@pacpartners.com.au 02 9134 9155
ANDREW SHEARER Technical Consultant ashearer@pacpartners.com.au 04 1172 0516	PHIL CARTER Analyst pcarter@pacpartners.com.au 0400 252 465	RYAN GALE Advisor – Melbourne rgale@pacpartners.com.au 03 9114 7404
	ALEX SMITH Analyst asmith@pacpartners.com.au 03 9114 7408	TOM FAIRCHILD Corporate Sales – Melbourne tfairchild@pacpartners.com.au 03 9114 7409
	TOM WAITE Junior Analyst twaite@pacpartners.com.au 03 9114 7400	IAN LEETE Corporate Sales – Sydney ileete@pacpartners.com.au 02 9134 9144
SYDNEY Kyle House, 27 – 31 Macquarie Place, Sydney +61 2 9233 9600		DANIEL GADALLA Operator – Melbourne dgadalla@pacpartners.com.au 03 9114 7400
MELBOURNE (Head Office) Level 10, 330 Collins Street, Melbourne +61 3 8633 9831		
Hong Kong Upper Ground Floor, 148 Queens Road Central +0011 852 041169 7866		

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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