Mincor Resources NL

(ASX: MCR)

MINCOR
RESOURCES NL

Produced by UWA students Luca Formaggio, Brook Lewis, Kiriill Butler, Raymond Wang, and Stephen Chen for May 2021 Argonaut Stock Pitch competition. Not for distribution. Not financial advice.

I. Investment Summary

Executive Summary

Speculative **"BUY"** with a target price of **$1.32**

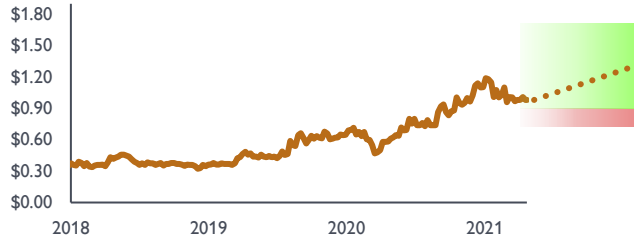
Investment theses

Quality Asset Entering Production
High potential for significant upside arising from low-cost, high-grade nickel sulphide project Cassini as production set to begin imminently

Highly Integrated in Nickel Value Chain
Unique offtake agreement with Nickel West and close proximity to processing infrastructure puts MCR into an attractive position amongst nickel miners

Industry Vertical Tailwinds
MCR set to profit from nickel sulphide's importance in value chain of growing EV vehicle industry since specifically nickel sulphide is needed for batteries

Base case priced in with overall asymmetric returns



Upside:
$1.71 +71%

Target:
$1.32 +32%

Downside
$0.82 -18%

Supporting rationale:

- Mincor is a close to production Nickel Sulphide miner mining in the Kambalda region for over 20 years, and a resuming production in an area with known risk profiles
- High grade project with head grade at 3.9%

- **Low cost producer at $10000/t – industry standard at $11500/t**
- 551 nickel-in-concentrate proven tonnes, 70,262 tn probable
- Given Kambalda's history, justification for 50-100% increase in reserves
- Offtake and infrastructure agreements with BHP's Nickel West
- 3,421 nickel tonnes forward contract is held, with an average price of AU$21,000/tn

- **Triple expanding markets**

1. Increasing proportions of nickel in batteries
2. Increasing battery usage (EV range, other storage)
3. Increasing EV adoption (ex: China 5 year plan 2030 target of 100% EVs)

Key catalysts

Production Commencement (Q3 2021)

R&R Uplift (Q3 2021 onwards)

Positive Earnings (2022 onwards)

II. Business Overview

Business Overview

Broad range of quality nickel assets set to enter production

Overview of Mincor Mining Assets and Reserves

Production

Long	Ni	• 4,375 tonnes Nickel in concentrate • Production ending July 2022

Near-term Production

Cassini	Ni	• Production Sep 2021 • 34,650 tonnes Nickel in concentrate • Potential for further discovery

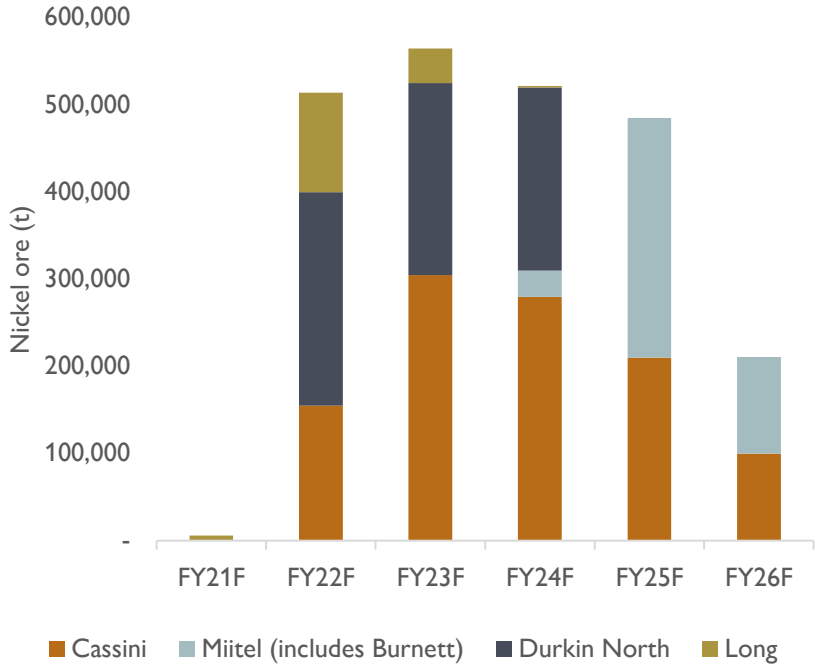
Development

Miitel	Ni	• Production 2024 • 10,230 tonnes Nickel in concentrate
Durkin North	Ni	• Production 2022 • 16,200 tonnes Nickel in concentrate

Under Care and Maintenance

Widgiemooltha	Au	• 560,490 grams Gold • Potential Divestment

Forecast Production Across All Assets

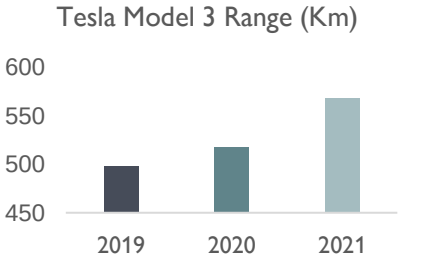


Nickel Supremacy, Battery & EV Expansion and Stainless Steel

Triple tailwinds in battery market

Increasing Nickel Content/Battery	Nickel has the highest specific energy of battery metals and batteries are using increasingly higher proportions of Nickel per battery.
Increasing Battery Capacity	With more application of battery demand, there are greater demands for more storage. For example, EV manufacturers are competing on longer ranges.
Increasing Adoption of EVs & Batteries	EV market share is set to increase from 5-10% to 50% by 2030. Battery tech is also growing in homes, power grids, and other industries.

Increasing Demand for Batteries in EV Sector



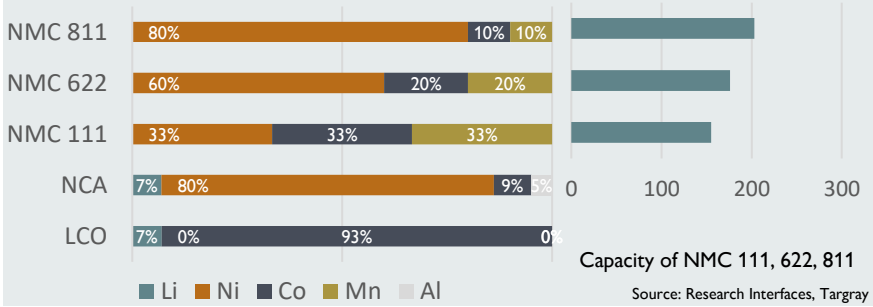
Sustained Demand Growth for Other Uses

2.5%

Forecast CAGR for Stainless Steel Production 2020 – 2040

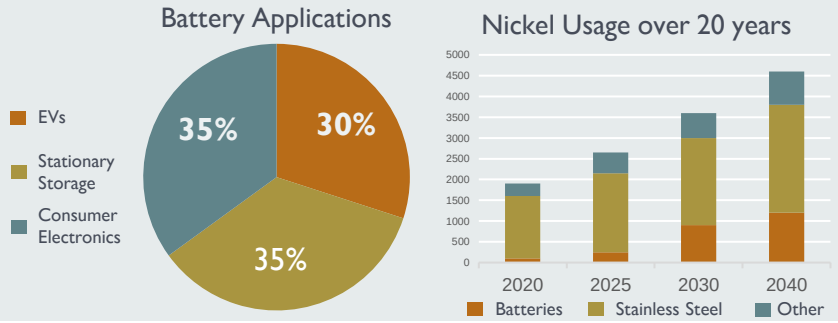
Source: Nickel Institute

Nickel Composition in Batteries



Source: Research Interfaces, Targray

EV Market Growth & Other Applications

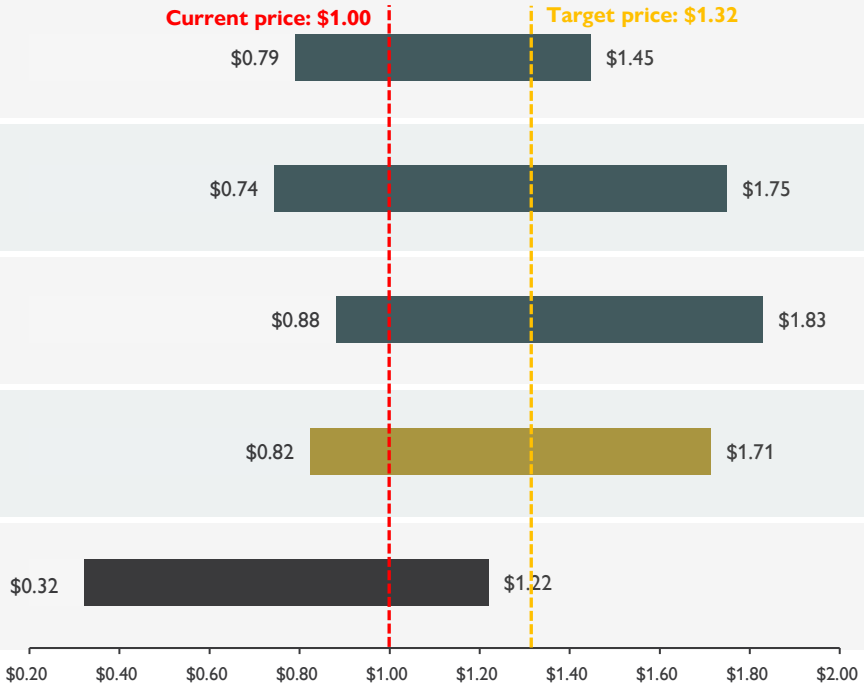


III. Financial and Quantitative Analysis

Valuation Summary

Football Field Analysis

		Premiums: Low	High	Description
Comps	FY20 EV/Reserve 0.26x – 0.59x	(19.4%)	48.0%	• Implied share price (median): **$1.12**
	FY 20 P/NAV 0.39x – 0.92x	(24.5%)	78.6%	• Implied share price (median): **$1.25**
DCF	Reserve and probabilistic resources	(10.2%)	86.7%	• 5-year DCF • WACC: **6.6%** • Implied share price (median): **$1.38**
Blended Valuation	60% DCF 20% P/NAV 20% EV/Reserve	(16.3%)	74.5%	• Implied share price (target): **$1.32**
Trading Range	52-week high to low	(67.3%)	24.5%	• Median share price: **$0.77**



Net Asset Value

Upside opportunity based on probable resources conversion

Key assumptions

- Valuation date: May 4, 2021
- Effective tax rate: 30%
- WACC: 6.6%
- AUD:USD exchange rate: 0.75 to end of FY23 and 0.73 onwards

Kambalda Nickel Operations (KNO) DCF:

- Nickel price: Increases from US$16,825/t to US$18,300/t based on median analyst forecasts
- Logic: - Assumes mine only produces reserve estimates

Gold reserves and resources NAV:

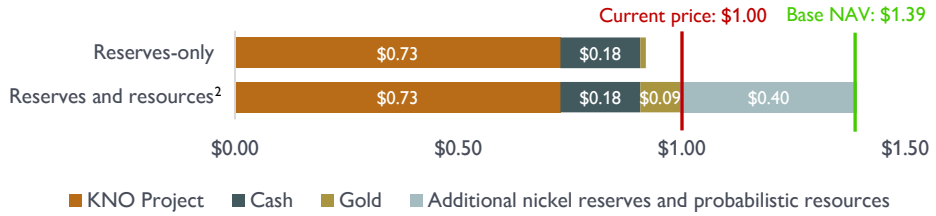
- Gold price: US$1,790/oz until end of FY25
- AISC: A$1,126/oz
- Logic: - Includes WGP reserves
  - Assumes only costs are AISC and income taxes
  - Production and processing uniformly distributed from FY23 to FY27

Kambalda Nickel Operations (KNO) probabilistic resources NAV:

- Production probability[1]: Measured ≈ 80%
  Indicated ≈ 45%
- AISC: A$4.47/lb
- Logic: - Excludes KNO reserves (accounted for in DCF)
  - Excludes non-KNO resources and KNO "Inferred" resources (unsuitable for short-term base case price target projection)
  - Assumes only costs are AISC and income taxes
  - Production and processing distributed according to average DFS forecast production rates for KNO between FY26 and FY28

KNO DCF Analysis	Seton Capital forecast					
A$m, Jun y/e	**FY21F**	**FY22F**	**FY23F**	**FY24F**	**FY25F**	**FY26F**
Revenue	3.2	275.0	331.8	320.0	348.3	154.1
EBITDA	**2.1**	**174.1**	**214.1**	**212.0**	**234.0**	**104.4**
D&A	(0.1)	(14.1)	(24.0)	(19.8)	(8.9)	(1.0)
EBIT	**1.9**	**160.0**	**190.0**	**192.2**	**225.1**	**103.4**
Taxes	(0.6)	(48.0)	(57.0)	(57.7)	(67.5)	(31.0)
Net income	**1.3**	**112.0**	**133.0**	**134.5**	**157.6**	**72.4**
Plus: D&A	0.1	14.1	24.0	19.8	8.9	1.0
Less: capital expenditure	(65)	(37)	(37)	(29)	(10)	(1)
Less: increase in non-cash working capital	(29)	-	-	-	-	29
Unlevered FCF	**(93)**	**89**	**120**	**125**	**156**	**101**
Discounted FCF	**(91)**	**82**	**103**	**101**	**119**	**72**

Equity value per share: reserves-only vs. reserves and probabilistic resources estimate



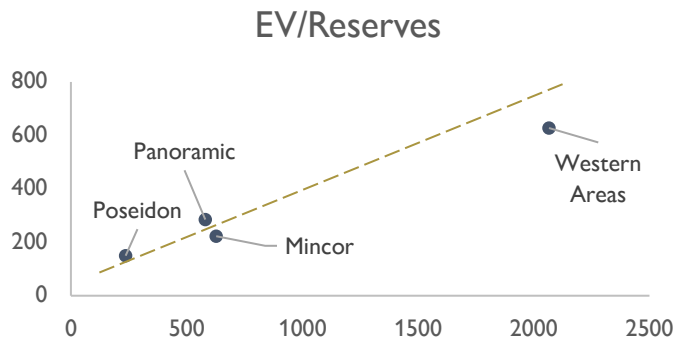
[1] Production probability = probability of resource presence x recovery rate. Figures assume current recovery rate of 91.09%; probability of Measured resource presence = 80%; probability of Indicated resource presence = 50% (based on principles set fourth in "Valuation of Metals and Mining Companies" by Svetlana Baurens)

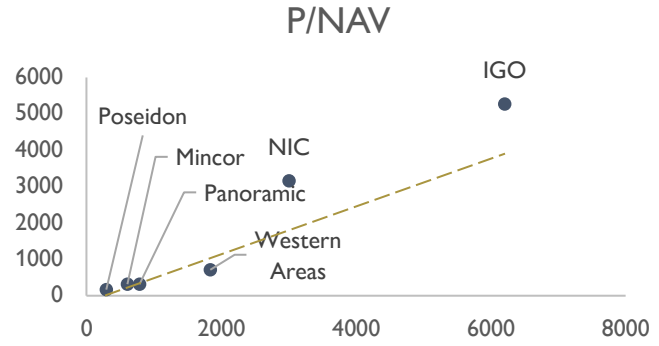
[2] Excludes non-KNO resources and KNO "Inferred" resources

Comparative Companies Analysis

Asymmetric Risk/Reward, Mincor compares well to competitors

Comparison		
	MCR	WA Average
AIC	$10934/t	$11614/t
AISC	$9852/t	$8293/t
Nickel Grade	3.9%	1.2%
P/NAV	0.52	0.63
EV/Reserves	0.35	0.44



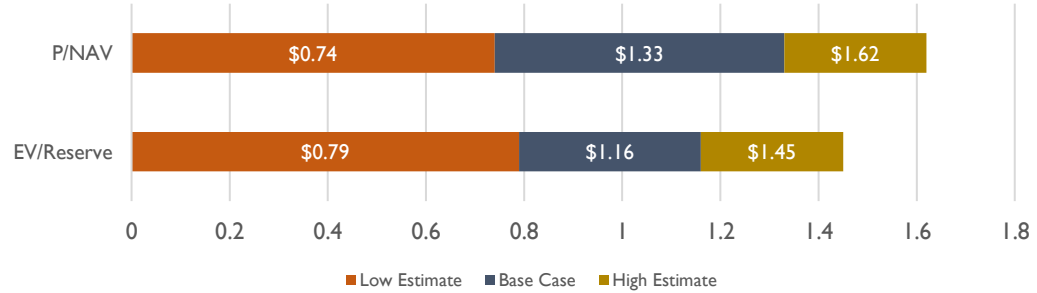


Assumptions

- Assume flat nickel price of $20,540
- Only take into account assets in development /production
- 7% discount rate for Australian companies
- Assume flat AIC unless otherwise stated
- Assume same tax system, except NIC (Indonesian royalties)
- Only take into account current reserves
- Assume currency will not affect pricing
- Assume market pricing reflects actual value

Under these assumptions, Mincor is likely undervalued. This could be because the market anticipates increase in reserves while base DCF does not.

Price Targets



[1] Reserve and grade estimates sourced from MCR's March 2020 DFS Statement

IV. ESG Considerations and Key Risks

Management Overview

Experts in resources with a mandate for creating shareholder value

Management	Role	Remuneration	Shares
Mr Brett Lambert	Non-exec Chairman	$114,975	162,500 ▲
Mr David Southam	Managing Director	$1,016,853	-
Mr Dean Will	COO	$563,077	150,000 ▲
Mrs Chen Sun	CFO	$440,804	17,629 ▬
Mr Michael Bohm	Non-exec Director	$79,388	150,000 ▲
Mrs Liza Carpene	Non-exec Director	$79,388	-
Mr Peter Bewick	Non-exec Director	$38,325	-

MCR Top 6 Shareholders (as of 16 April 2021)

#	Shareholder	Ownership Stake (% and # shares)
1	Wyloo Metals	15.70% 67.9M
2	IGO	8.07% 34.9M
3	Citigroup Nominees	5.45% 23.5M
4	J P Morgan Nominees	4.13% 17.8M
5	National Nominees	2.77% 12M
6	McCuscker Holdings	1.80% 7.8M

MCR remuneration structure incentivises shareholder alignment

- Remuneration arrangements at MCR emphasise performance-based rewards for key management personnel (KMP)
- Both **STIs** and **LTIs** are available for KMPs' potential remuneration
- In FY20, **45%** of David Southam's remuneration was linked to performance
- **26%** of Dean Will's remuneration and **27%** of Chen Sun's remuneration was linked to performance
- **~70%** of maximum STI earned by each KMP due to achievement towards KPIs

Past achievements of company executives supports future performance

David Southam
Maintained company value as Executive Director of Western Areas for 8 years

Dean Will
Former technical group head and senior roles at Anglo American and AngloGold Ashanti

Commentary:

- **Large majority of the board are independent, non-executive directors**
- **Key management personnel have on average >20 years experience in the natural resources sector**
- **4 out of 7 management personnel have relevant expertise in mining engineering and geology – aligns with company's current exposure to exploration and development projects**

Sustainability

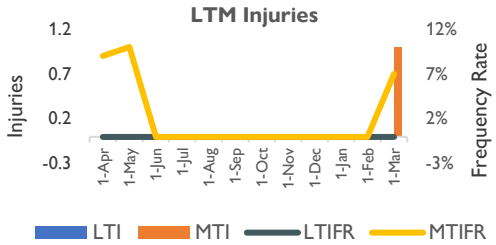
On track as a sustainable mining junior

ESG requirement approval from Tier 1 financiers

- MCR secured a $55 million syndicated loan facility agreement with BNP Paribas and Société Générale in March 2021 quarter
- Financiers' ESG requirements in areas such as water use and pollution, air emissions and waste management satisfied by MCR

Extent of public ESG reporting falls behind other mining juniors and majors

Strong performance in workplace safety



- Minimal injuries in LTM
- Lost-time incident frequency rate (LTIFR) has remained at zero for >2 years
- Performance exceeds global mining industry average LTIFR of 0.97

Further ESG considerations

Waste management

- Establishing surface waste dumps at Otter Juan and Long
- Preparing establishment of bio-remediation pad at Otter Juan to benefit the environment
- Evidence of general waste and clean-up at Otter Juan

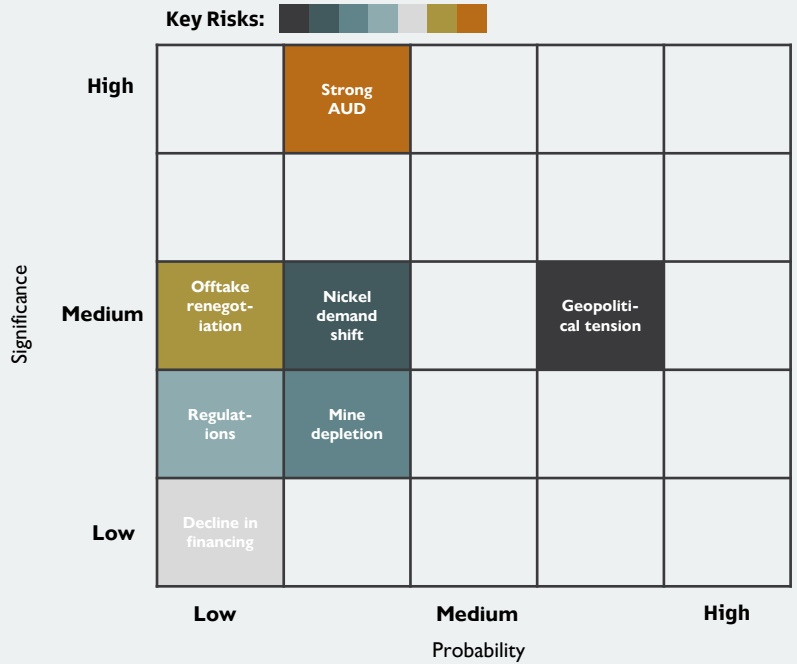
Climate and emissions

- Mincor has not made any public commitments to sustainable climate goals
- Low emitter of greenhouse gases – the company did not exceed the reporting threshold for National Greenhouse Gas and Energy Reporting in 2020

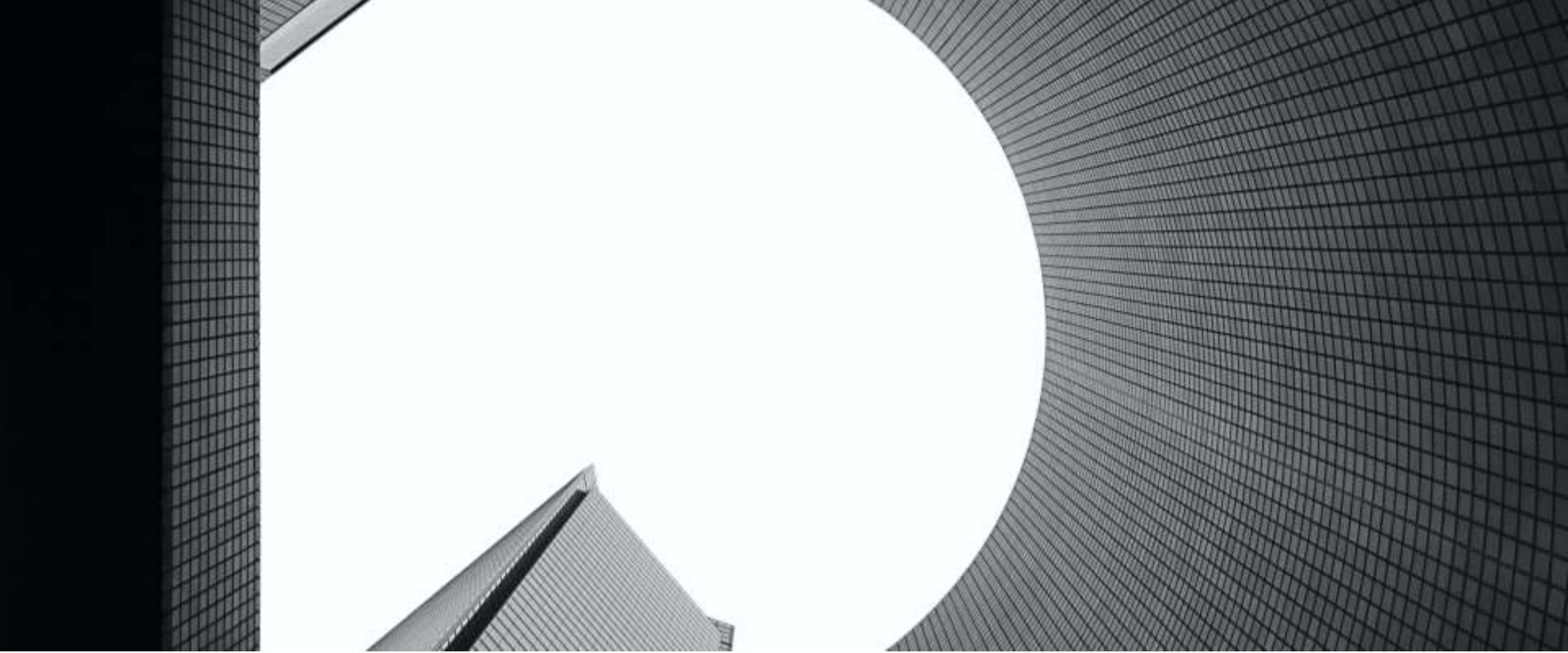
Key Risks

Attractive risk profile with low probability of downside

Risk Matrix



Risk	Description	Mitigant
Strong AUD	• AUD remains >0.75USD • Reduction in demand for Australian exports significantly dampens MCR's underlying profitability	• Forward contracts in AUD hedges against dramatic appreciation
Offtake renegotiation	• Upon offtake agreement expiry, MCR and Nickel West do not come to the same agreement • Results in greater processing costs, worse sales terms or rejection of any offtake agreement	• Concentrator and refinery running below capacity and low competition • BHP needs high-grade Ni from MCR to combine with it's low-grade Mt Keith Ni
Geopolitical tension	• ~55% of global nickel demand attributed to Chinese demand • Increased hostility between China and USA leading to economic warfare	• Trade war likely to improve terms of trade via appreciation of USD • Strong probability of BHP signing supply agreement with Tesla
Nickel demand shift	• Growth in nickel demand predicated on EV growth • Risk of hydrogen fuel cell popularity dampening EV growth	• Hydrogen fuel cell vehicles unlikely to overtake EV vehicles • Currently 600-700:1 ratio of EV to H2 vehicles globally
Mine depletion	• No additional nickel reserves are found when current nickel mines are depleted	• Additional resources found in assets under care and maintenance • Numerous exploration projects offset risk
Regulatory risk	• New regulations are introduced along with taxes which impact the nickel industry and diminish profitability	• Unlikely to occur due to importance of nickel in future green initiatives
Decline in financing	• MCR unable to acquire enough financing to continue expansion and exploration activities	• Market interest in MCR is high as evidenced through Tattarang's position • MCR attractive to investors due to healthy balance sheet and earnings

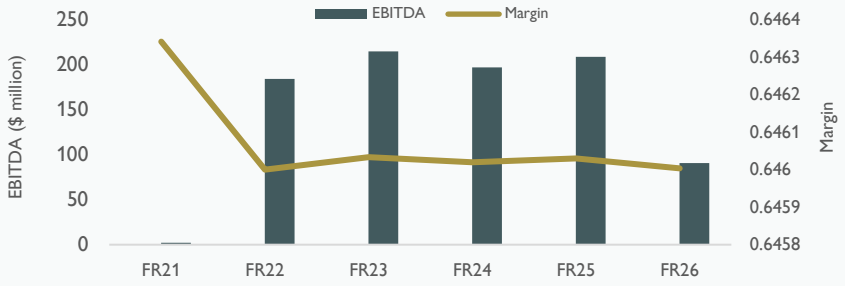


v. Appendices

Financial Analysis

Strong Earnings and Safe B/S with focus on Exploration and CAPEX

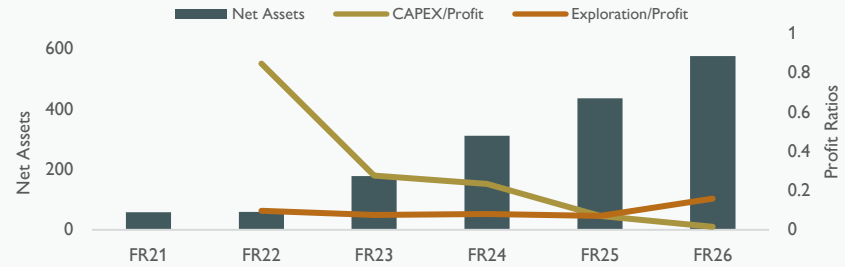
Outlook On Earnings and Margins



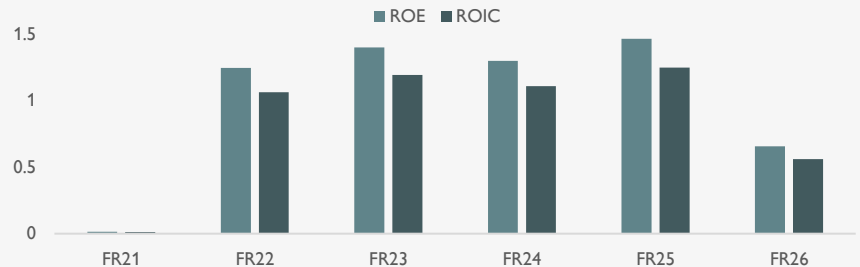
Commentary

- Mincor operates at a relatively high profit margin, which leads to a **payback period of 12 months,** as soon as they start to produce, which is forecast by the end of the year.
- Much of that is used for CAPEX to bring further mines online but after 2025, exploration takes over in terms of a %, indicating the company changing goals from bringing mines into production to finding new mines since current **LOF is 5 years**
- That being said, the **net assets are projected to grow**, leading to a health company with significantly low liabilities that will give them a wide margin to develop and sustain new mines and construction.
- Finally, we can also look towards ROE and ROIC and see that they have a **very productive use of invested money**. Overall, they are producing significant returns every year on the money invested.
- This starts to dwindle towards later years, but that is unlikely to actually happen due to strong exploration potential, leading to new mines and maintained earnings going forward.

Net Assets and CAPEX Profile

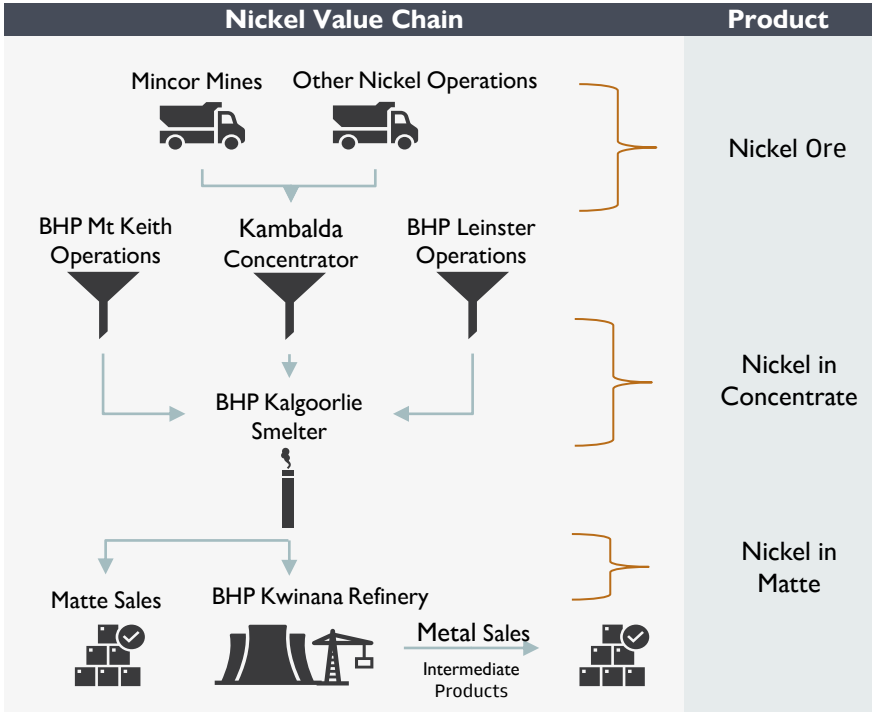


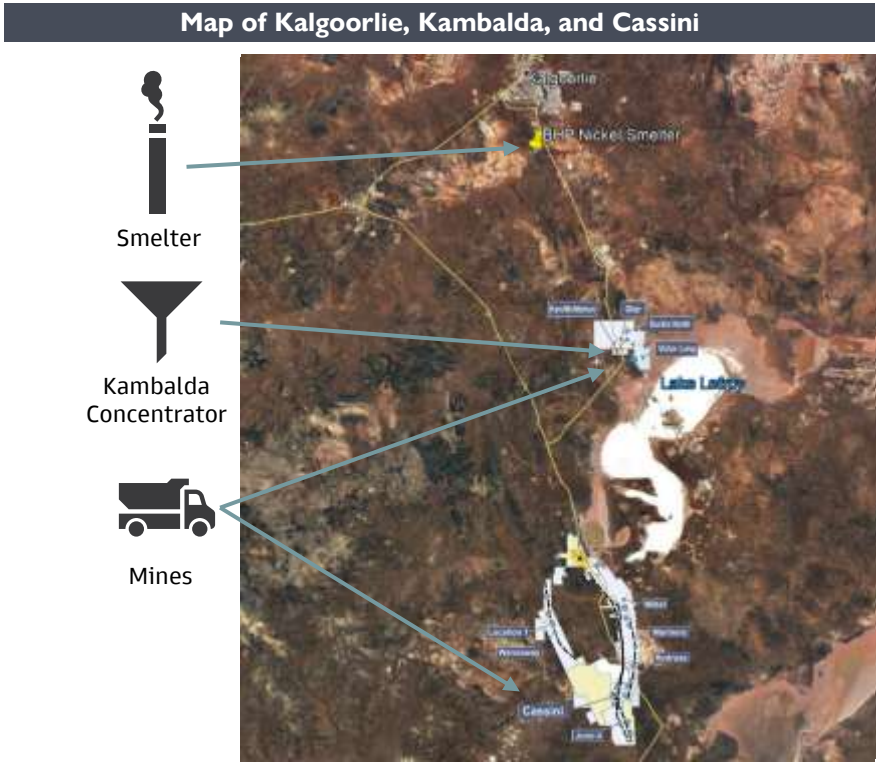
Forecast ROE & ROIC



Business Overview

Strong integration into WA nickel value chain via BHP Nickel West offtake





Net Asset Value Breakdown

Current market price discounts track record of resource conversion

Equity value per share breakdown		
KNO DCF	A$	315,034,295
Gold reserves and probabilistic resources NAV	A$	38,687,965
KNO probabilistic resources NAV	A$	171,377,158
Enterprise value	**A$**	**525,099,419**
Total debt	A$	-
Cash	A$	77,141,000
Shares outstanding	A$	432,300,000
Equity value	**A$**	**602,240,419**
Equity value per share	**A$**	**1.39**

KNO reserve assumptions

KNO Reserve	Proven	Probable
	(tonnes of nickel-in-concentrate)	
Cassini		39,996
Long		4,374
Burnett		7,046
Miitel	551	2,646
Durkin North		16,200
Total	**551**	**70,262**

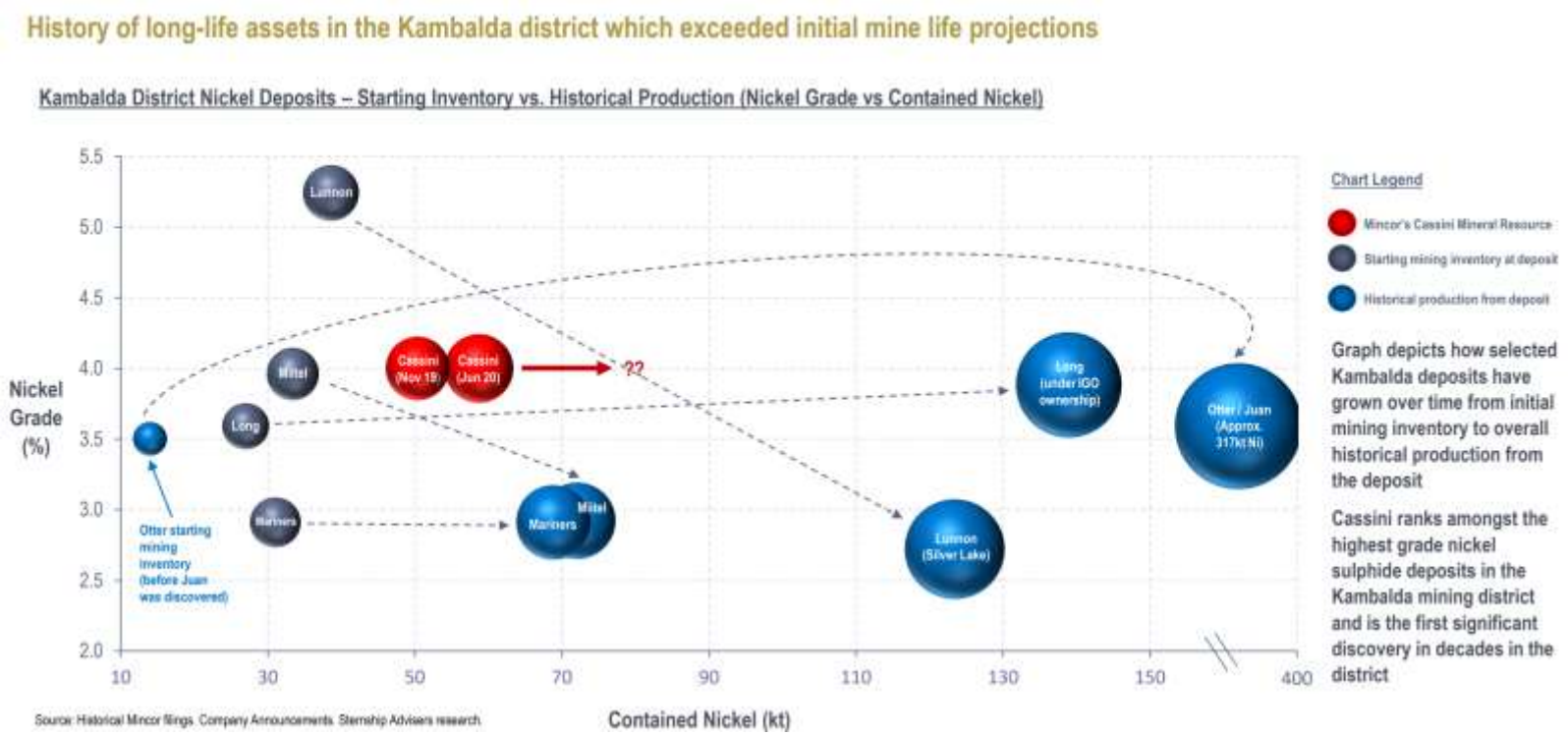
Resource assumptions[1]

Gold Resource	Measured	Indicated
	(troy ounces of gold)	
West Oliver	1,852	23,052
Bass	489	13,561
Hronsky	5,845	7,755
Darlek	5,874	23,264
Flinders		20,390
Hillview		
Total	**14,060**	**88,022**

KNO Resource (excl. reserves)	Measured	Indicated
	(troy ounces of gold)	
Cassini		11,284
Long		15,593
Burnett		2,594
Miitel	2,263	11,424
Durkin North		5,901
Total	**2,263**	**46,796**

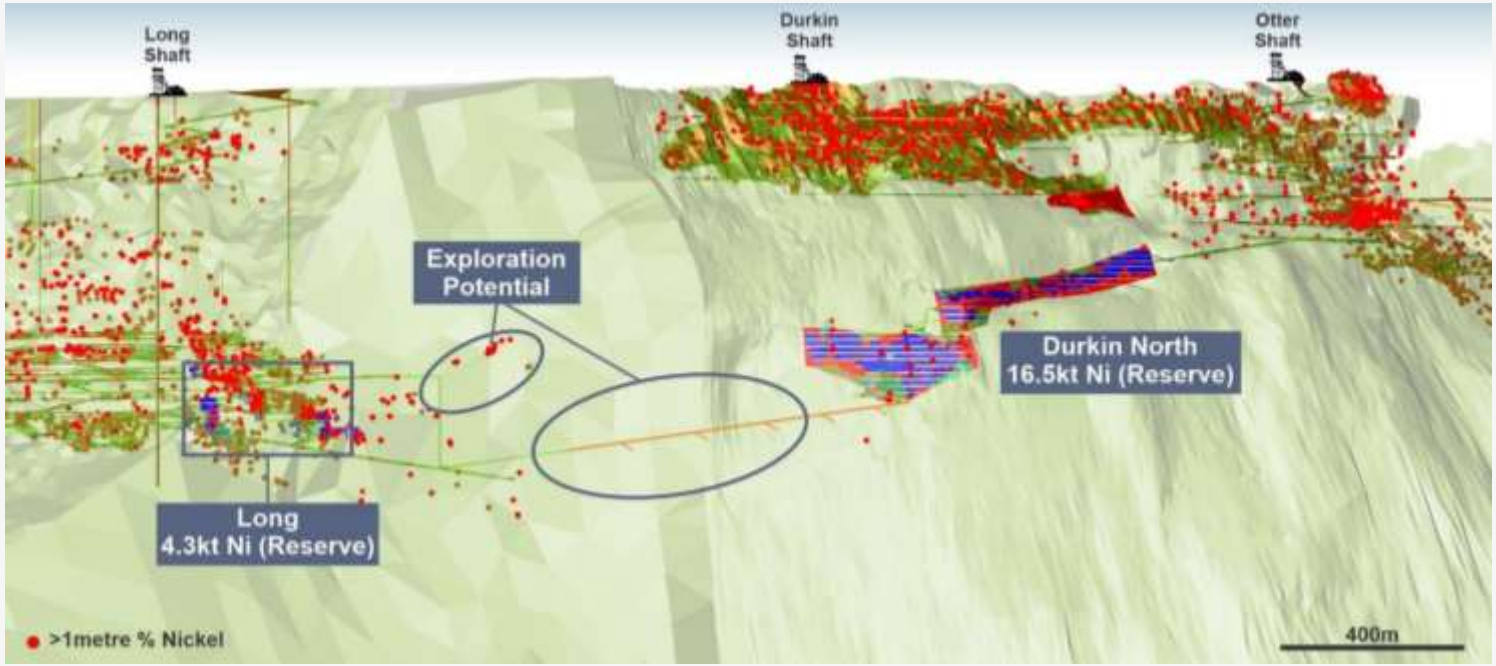
[1] Reserves, resources, grade and mining schedule estimates sourced from MCR's March 2021 Quarterly Activities Report and definitive feasibility study (DFS)

Historic production in Kambalda district typically exceeds expectations



Source: Mincor

MCR assets exhibit promising exploration potential



Source: Mincor

Business Analysis

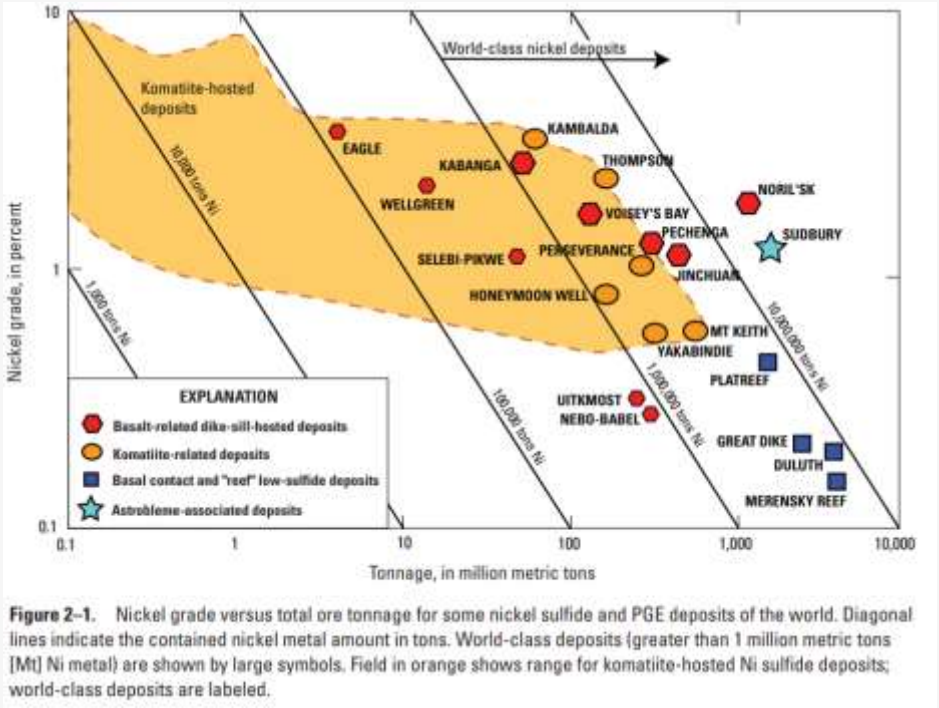


Figure 2–1. Nickel grade versus total ore tonnage for some nickel sulfide and PGE deposits of the world. Diagonal lines indicate the contained nickel metal amount in tons. World-class deposits (greater than 1 million metric tons [Mt] Ni metal) are shown by large symbols. Field in orange shows range for komatiite-hosted Ni sulfide deposits; world-class deposits are labeled.

Source: USGS

Cash Flows Visualised

A$ Thousands