



## Jupiter Mines Ltd (JMS.ASX)

### Proposed distribution highlights confidence

#### Event:

- Proposed interim distribution; Tshipi mine and CEO updates.

#### Investment Highlights:

- JMS this week announced that Tshipi e Ntle's cash is expected to be ZAR2b at end August 2018 (end 1HFY19e), based on sales to July 2018.** Accordingly the Tshipi e Ntle board had resolved to distribute ZAR1.5b to its shareholders in September 2018, subject to there being no adverse conditions. This would entitle JMS – a 49.9% shareholder in Tshipi e Ntle – to ZAR750M.
- Exceeds our previous forecast.** JMS expects to distribute all the cash received from Tshipi e Ntle to shareholders in September 2018, the 100% payout ratio well exceeding our own assumption and that disclosed in the prospectus which were both 70%.
- We estimate JMS to distribute \$73.3M, which would equate to \$0.038/share, implying an interim yield of 10% on the current share price.** This surpassed our prior forecast interim distribution of \$0.028/share.
- We believe reasons JMS intends to pay a distribution well above the 70% payout ratio include** the payout ratio assumed in the prospectus being conservative; absence of any compelling acquisition opportunities; low requirement for capex and investment; confidence in the Tshipi mine; and sending a message that it believes that the market is mispricing its shares.
- Operationally, the company stated that Tshipi exceeded its – and our forecast – of the 3.3Mtpa target rate in both production and sales for the first three months (1QFY19e).** JMS reaffirmed FOB costs of US\$2.20/dmtu.
- Finally, the company stated that CEO Mr Priyank Thapliyal had been discharged from hospital and is now continuing his recovery at home.**
- No surprises from draft Mining Charter.** On 15 June 2018, the South African Government released its draft Mining Charter III. For existing mining right holders such as Tshipi e Ntle, there are no surprises. As was expected, BEE interest will increase to 30% from 26%, a threshold that Tshipi e Ntle already well exceeds (it being 37%). The “once empowered always empowered” policy is included, which prevents the issue of future dilution for non-BEE owners should BEE partners wish to divest or sell down.

#### Earnings and Valuation:

- We make no material changes to earnings forecasts or valuation.** However we have upgraded our interim distribution forecast to \$0.038/share and for the full year to FY19e to \$0.057/share (previously \$0.028/share and \$0.050/share).

#### Recommendation:

- We maintain our Buy recommendation and 12-month price target of \$0.64/share based on our DCF (NPV<sub>10</sub>) valuation.**
- Catalysts for the share price include quarterly report; interim profit result; receipt of Tshipi distributions; and payment of dividends and/or share buyback.**

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$ 0.640			
Previous	\$0.64			
Share price (A\$)	\$ 0.375			
ASX code	JMS			
52 week low-high	0.325-0.43			
JMS Valuation risked (A\$/share)	\$ 0.640			
Methodology	DCF			
JMS Capital structure				
Shares on Issue (M)	1,948			
Market cap (A\$M)	731			
Net cash (debt) attributable (A\$M)	36			
EV (A\$M)	695			
Ave daily volume ('000)	5,622			
JMS Earnings FY* A\$M	FY18a	FY19e	FY20e	FY21e
Sales adj**	352.1	438.1	328.0	333.2
EBITDA adj.**	160.1	221.4	123.9	124.0
NPAT reported	92.2	143.0	74.5	75.0
NPAT adj	95.3	143.0	74.5	75.0
EPS adj. \$	0.044	0.075	0.042	0.044
PE x	8.3	4.9	8.8	8.4
EV/EBITDA x	4.2	3.0	5.4	5.4
Dist'n decl. \$/share	0.048	0.057	0.034	0.030
Yield %	13%	15%	9%	8%

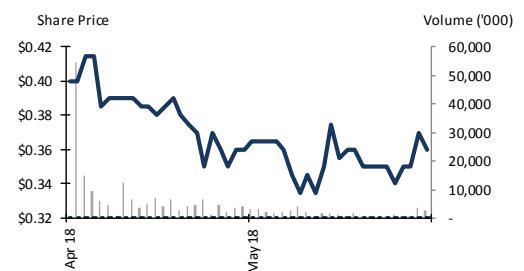
\* Y/End Feb

\*\* Incl share of Tshipi EBITDA

#### JMS Board

Brian Gilbertson	Non-Executive Chairman
Priyank Thapliyal	CEO and Executive Director
Paul Murray	Non-Executive Director
Andrew Bell	Non-Executive Director
Sungwoon Yoon	Non-Executive Director

#### Share price graph



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The analyst does not own JMS securities.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 10,949,091 JMS shares.

Cranport Pty Ltd owns 10,800,000 JMS shares.

**Foster Stockbroking was Co-Manager to the \$240M IPO of 600M JMS shares at \$0.40 in April 2018. Foster Stockbroking received fees for this service, including a discretionary fee. Refer to prospectus for details.**



## Jupiter Mines Ltd

Full Year Ended 28/29 February

JMS - Profit and Loss A\$M	2018a	2019e	2020e	2021e
Sales	-0.4	0.0	0.0	0.0
Other revenue	10.5	13.1	9.8	10.0
Operating Costs	2.9	4.4	4.4	4.4
D&A	0.0	0.0	0.0	0.0
Share of profit from JV	94.0	139.0	71.8	71.7
Net Interest exp / (income)	-0.2	-1.0	-0.6	-1.2
Profit before tax adj	101.8	148.7	77.8	78.5
Tax exp / (benefit) adj	6.5	5.7	3.2	3.5
<b>Underlying NPAT</b>	<b>95.3</b>	<b>143.0</b>	<b>74.5</b>	<b>75.0</b>
Non-recurring gain/(loss)	-3.1	0.0	0.0	0.0
<b>Reported NPAT</b>	<b>92.2</b>	<b>143.0</b>	<b>74.5</b>	<b>75.0</b>

### Attributable incl Tshipi 49.9% share:

Sales adj.	352.1	438.1	328.0	333.2
<b>EBITDA adj.</b>	<b>160.1</b>	<b>221.4</b>	<b>123.9</b>	<b>124.0</b>
EBIT adj.	139.0	200.8	103.2	103.3

**Underlying EPS diluted (\$)**      **0.044**    **0.075**    **0.042**    **0.044**

JMS -Cashflow A\$M	2018a	2019e	2020e	2021e
EBITDA adj.	160.1	221.4	123.9	124.0
Equity accounting	-152.9	-212.7	-118.5	-118.4
Change in WC	-9.8	0.0	0.0	0.0
Tax paid	0.0	-5.7	-3.2	-3.5
Net interest	0.2	1.0	0.6	1.2
Other	-5.3	0.0	0.0	0.0
<b>Operating Cashflow</b>	<b>-7.8</b>	<b>4.1</b>	<b>2.8</b>	<b>3.3</b>
PPE	0.0	0.0	0.0	0.0
Exploration	-0.9	-0.6	-0.6	-0.6
Investments	3.1	0.0	0.0	0.0
<b>Investing Cashflow</b>	<b>2.2</b>	<b>-0.6</b>	<b>-0.6</b>	<b>-0.6</b>

Equity issue	0.0	0.0	0.0	0.0
Loan repayment	52.5	0.0	0.0	0.0
Debt repayments/proceeds	0.0	0.0	0.0	0.0
Distributions received	27.7	73.7	99.3	68.4
Share buyback	-102.4	-63.6	-35.7	-24.7
Dividends paid	0.0	-61.2	-35.7	-24.7
<b>Financing Cashflow</b>	<b>-22.2</b>	<b>-51.1</b>	<b>28.0</b>	<b>19.0</b>
<b>Net Cashflow</b>	<b>-27.8</b>	<b>-47.7</b>	<b>30.1</b>	<b>21.7</b>

JMS - Balance Sheet A\$M	2018a	2019e	2020e	2021e
Cash	76.5	28.9	59.0	80.7
Receivables	45.9	45.9	45.9	45.9
PPE	0.0	0.0	0.0	0.0
Capitalised exploration	8.7	8.7	8.7	8.7
Investments	385.3	450.5	423.0	426.3
Other	1.4	1.4	35.0	35.0
<b>Total Assets</b>	<b>517.8</b>	<b>536.4</b>	<b>571.5</b>	<b>596.5</b>
Accounts payable	49.0	49.0	49.0	49.0
Provisions	0.0	0.4	0.4	0.4
Debt	0.0	0.0	0.0	0.0
Other	2.6	2.6	34.6	34.0
<b>Total Liabilities</b>	<b>51.6</b>	<b>52.0</b>	<b>84.0</b>	<b>83.4</b>
Reserves and capital	434.1	370.5	334.9	310.2
Retained earnings	32.0	113.8	152.7	203.0
<b>Total Equity</b>	<b>466.2</b>	<b>484.4</b>	<b>487.6</b>	<b>513.2</b>

### JMS - Capital structure

Ordinary shares	1,948.3
<b>Fully diluted equity</b>	<b>1,948.3</b>

Half year splits	1H	2H	1H	2H
	FY18a	FY18a	FY19e	FY19e
Other revenue	5.1	5.4	6.8	6.4
Share of profit JV	33.8	60.2	71.7	67.3
<b>Underlying NPAT</b>	<b>34.2</b>	<b>61.1</b>	<b>74.0</b>	<b>69.0</b>

### Attributable incl Tshipi 49.9% share:

<b>EBITDA adj.</b>	58.9	100.8	114.4	107.0
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JMS -Financial Metrics	2018a	2019e	2020e	2021e
EPS growth %	123%	70%	-44%	5%
Gearing (ND/ND+E)	-20%	-6%	-14%	-19%
Interest Cover (EBIT/net int)	nm	nm	nm	m
Average ROE %	20%	30%	15%	15%
Average ROA %	20%	28%	14%	13%
Wtd ave share diluted (M)	2,148	1,898	1,774	1,699
Distribution decl. per share (\$)	0.048	0.057	0.034	0.030

JMS - Earnings multiples	2018a	2019e	2020e	2021e
P/E x	8.3	4.9	8.8	8.4
EV/EBITDA x	4.2	3.0	5.4	5.4
Dividend Yield %	13%	15%	9%	8%

### JMS -Company Valuation

Segment	A\$M	A\$/share
Tshipi (49.9%)	1,134	\$ 0.58
Marketing	76	\$ 0.04
Iron Ore	27	\$ 0.01
Corporate	-32	-\$ 0.02
Net cash - Tshipi attributable (end Mar 18)	10	\$ 0.01
Net cash - JMS (end Mar 18)	26	\$ 0.01
<b>Equity</b>	<b>1,240</b>	<b>\$ 0.64</b>

Tshipi - Assumptions	2018a	2019e	2020e	2021e
Mn 44% China, CIF, US\$/dmtu	6.14	6.18	5.17	5.18
Mn 37% RSA, FOB, US\$/dmtu	5.16	5.69	4.26	4.27
JMS Mn realised, FOB, US\$/dmtu	4.52	5.48	4.11	4.12
A\$:US\$	0.77	0.76	0.75	0.74
Rand:US\$	13.08	12.92	13.78	14.46

### Mn ore shipments:

36.5% lump	2.69	2.81	2.81	2.81
35.5% fines	0.52	0.50	0.50	0.50
Low grade 33%	0.13	0.00	0.00	0.00
<b>Total Mn ore shipments Mt</b>	<b>3.34</b>	<b>3.30</b>	<b>3.30</b>	<b>3.30</b>

Cash costs US\$/dmtu, FOB	2.09	2.23	2.01	2.01
Cash costs US\$/dmtu, CIF	2.55	2.82	2.63	2.66

### JORC Resources and Reserves Mn

Tshipi	Ore Mt	Mn grade %
<b>Total Reserves</b>	<b>86</b>	<b>36.3%</b>
Measured	103	34.1%
Indicated	120	33.5%
Inferred	237	32.5%
<b>Total Resource</b>	<b>460</b>	<b>33.1%</b>

Mt Ida & Mt Mason	Ore Mt	Fe grade %
<b>Total Resource</b>	<b>1852</b>	<b>36.8%</b>

### JMS - Major shareholders

Stichting Penioenfunds ABP	14.8%
Investec Bank Ltd	13.4%
Pallinghurst Steel Feed (Dutch) BV	7.5%
POSCO Australia GP Pty Ltd	6.9%
HJM Jupiter LP	5.0%

Source: Foster Stockbroking estimates.

**JUPITER FLAGS INTERIM DISTRIBUTION AT PAYOUT ABOVE PROSPECTUS****Interim distribution to be worth \$0.038/share, or 10% yield**

- Jupiter Mines Ltd (JMS) announced on June 18th that Tshipi e Ntle's cash is expected to be ZAR2b at the end of August 2018 (end 1H FY19e), based on manganese sales to July 2018. Accordingly, the Tshipi e Ntle board had resolved to distribute ZAR1.5b to its shareholders in September 2018 subject to there being no adverse conditions. This would entitle JMS – a 49.9% shareholder in Tshipi e Ntle – to ZAR750M.

**Exceeds our previous forecast**

- JMS expects to distribute all the cash received from Tshipi e Ntle to its shareholders in September 2018, the 100% payout ratio well exceeding our own assumption and that disclosed in the prospectus which were both 70%.
- Applying our forecast exchange rates in 2HFY19e (A\$=US\$0.75 and US\$=ZAR13.62), this implies JMS should receive and distribute \$73.3M. This would equate to \$0.038/share, or an interim yield of 10% at the current share price. This exceeds our previous forecast which was \$0.028/share, mostly due to our payout ratio assumption being 70% in-line with the prospectus.
- We understand JMS has not yet decided the form of the distribution. We currently forecast an approximate equal split between dividend and share buyback.

**Figure 1: Forecast JMS Interim Distribution**

Parameter	Unit	Amount
A\$ FSBe forecast 2HFY19e	US\$	0.75
ZAR FSBe forecast 2HFY19e	US\$	13.62
Tshipi e Ntle distribution	ZAR M	1,500
JMS share of Tshipi e Ntle	%	49.9%
JMS share of distribution	ZAR M	748.5
JMS share of distribution	A\$M	73.3
JMS shares on issue	M	1,948
<b>Distribution</b>	<b>\$/share</b>	<b>\$0.038</b>
JM share price	\$/share	\$0.355
<b>Interim distribution yield</b>	<b>%</b>	<b>11%</b>

Source: Company; Foster Stockbroking estimates.

- We believe reasons JMS intends to pay a distribution well above 70% include confidence in the Tshipi mine operation and outlook; the minimal requirement for capex and investment; the 70% prospectus ratio being conservative; absence of compelling acquisition opportunities; and sending a message that the market is mispricing its shares.

**PRODUCTION EXCEEDS TARGET RATE OF 3.3MTPA**

- The company also provided a brief update on Tshipi, stating that the mine exceeded the 3.3Mtpa target rate in both production and sales for the first three months (1Q FY19e). Our forecasts also assumes 3.3Mtpa production for FY19e.
- The company stated FOB costs reaffirmed around US\$2.20/dmtu, lower than our forecast for the FY19e of \$2.25/dmtu.
- While positive, we make no changes at this stage to our production or costs forecasts, preferring to wait for the May quarterly report to observe a more detailed view of production and performance.



## CEO DISCHARGED FROM HOSPITAL, RECOVERING AT HOME

- A final piece of positive news was that CEO Mr Priyank Thapliyal was discharged from hospital and now is continuing his recovery at home.

## DRAFT SOUTH AFRICA MING CHARTER OFFERS NO SURPRISES

### No impact envisaged for JMS

- On 15 June 2018 the South African government released its draft Mining Charter III, following on from the initial proposed revised draft from CY2017, and including the feedback that followed from the mining industry.

### Proposed 30% BEE interest already more than satisfied by Tshipi

- Our take is that there are no surprises and it is in-line with expectations, especially for existing mining right holders such as Tshipi e Ntle. The key feature is the previously flagged increase in Black Economic Empowerment (BEE) ownership interest to 30% from 26% for existing mining projects, as per the prior version of the proposed new charter. This threshold is already satisfied for Tshipi, which has BEE interest of 37%.
- Another key plank is that the draft recognises the “once empowered always empowered” policy, which was backed by the High Court’s ruling in April 2018, and absent from the previous revised mining charter draft. This means that should the BEE interest fall below 30% for whatever reason (for example divestment by BEE partner, merger, or acquisition), there is no risk of the requirement to dilute non-BEE owners of the asset.
- The draft Charter’s stipulation of Board composition – 50% of which are to be black, of which 20% are women – is currently satisfied by the Tshipi e Ntle Board.
- Responses to the draft are invited before 27 July 2018, following which a finalised draft will be submitted for final government approval.

## EARNINGS AND VALUATION

- We make no material changes to our earnings forecasts or valuation for JMS.
- **Distribution increased**
- However we have increased our distribution for FY19e to \$0.057/share, up from \$0.050/share previously. We forecast \$0.038/share for the interim and \$0.019/share for final. We still assume a 50:50 composition of share buyback and dividend for the distribution.
- We also maintain our assumption of 70% and 97% payout ratios from 2HFY19e onwards for JMS, and Tshipi e Ntle respectively.

## RECOMMENDATION – BUY, 12-MONTH PRICE TARGET \$0.64/SHARE

- We maintain our Buy recommendation on JMS and 12-month price target of \$0.64/share which is based on our DCF valuation. Catalysts for the share price include quarterly report; profit results; receipt of dividends from Tshipi e Ntle; and payment of distributions to shareholders.



## FOSTER STOCKBROKING DIRECTORY

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**Specific disclosure:** The analyst does not own JMS securities at the time of this report. Diligent care has been taken care by the analyst to maintain honesty and fairness in writing the report and making the recommendation.

**Specific disclosure:** The analyst has received assistance from the company in preparing the report. This included attending a company site visit in January 2018, for which JMS paid for the analysts' flights and part of the accommodation.

**Specific disclosures:** As of close of business 20 June 2018, Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) owned 10,949,091 JMS shares. Cranport Pty Ltd owns 10,800,000 JMS shares. The position may change at any time and without notice. Foster Stockbroking and its employees may from time to time own shares in JMS, and trade them in ways different from those discussed in research. Foster Stockbroking may also make a market in securities of JMS, including buying and selling securities on behalf of clients.

**Specific disclosure:** Foster Stockbroking acted as Co-Manager to the \$240M IPO of 600M Jupiter Mines shares at \$0.40/share in April 2018. Foster Stockbroking earned fees for the service, including a discretionary fee. Refer to prospectus for full details.

**Review disclosure:** The report was authored by the analyst named on the front page of the report and was reviewed and checked by Matthew Chen, Research Analyst.

**Disclosure review.** All the disclosures in the report have been reviewed and checked by Keith Quinn, Compliance Committee Member.