

## JUPITER MINES LTD (JMS)

### Commences feasibility for 50% production expansion

Jupiter Mines Ltd (JMS) has announced that Tshipi is proceeding with a feasibility study to expand production to 4.5Mtpa (from 3.0Mtpa). Capex is estimated around (+/30%) ~1b rand (~A\$100m, JMS share ~A\$50m). The study is expected to be completed end CY20.

It is planned that production will be ramped up slowly (over three years), which makes sense for cash flow but also for market digestion. The expansion adds ~3% to global supply, which is modest but not immaterial.

### Strong economics, on paper

The expansion economics could be very strong, although there is no operating cost guidance. In simplistic terms, it could cost JMS shareholders A\$50m to increase EBITDA (base case) by ~A\$40m pa. On a DPS basis, the one-off cost is ~2.5cps (pre-tax, ~1.6cps post tax) for an annual DPS increase (base case) of ~1.5cps. The Tshipi estimated reserves (100%) are ~94mt and resources are 432Mt, so the reduction in mine-life from an expansion is nearly meaningless from an NPV10 perspective. We assume capex can be easily financed with cash flow, although a debt facility would be nice if it could be arranged to have no impact on dividends.

### Hartleys still assumes 1.5cps final DPS

We maintain our FY20 final DPS estimate of 1.5cps. Spot manganese prices have continued to rally. We estimate that on spot manganese prices, JMS can sustain a 2-2.5cps annual dividend, rising to 4cps after the expansion.

### Retain Buy recommendation

Although at an early stage, we have incorporated the expansion into our model. For conservatism though, we don't assume production reaches 4.5mtpa until FY25 and we have increased capex well above indicative guidance (but spread it over a longer duration). Our base case valuation increases by around 7cps. We view this as a highly risked attribution, and if the project becomes de-risked we would expect our valuation increases further. Our new base valuation is 47cps. Our spot valuation is 41cps. We have a 46cps twelve month target + 3.0cps DPS (1.5cps + 1.5cps).

Fig. 1: Hartleys medium term earnings changes

Tshipi (49.9%)	Unit	28 Feb 23			29 Feb 24			28 Feb 25		
		Old	New	% chg	Old	New	% chg	Old	New	% chg
Production (100%)	Mtpa	3.0	3.4	14.4%	3.0	4.2	38.6%	3.0	4.5	48.5%
Received Price	US\$/dmu	4.2	4.2	0.0%	4.2	4.2	-0.2%	3.9	3.9	0.0%
AUD	US\$/AS	0.73	0.73	0.0%	0.74	0.74	0.0%	0.74	0.74	0.0%
ZAR	Rand/US\$	14.7	14.7	0.0%	15.2	15.2	0.0%	15.8	15.8	0.0%
Tshipi Revenue (49.9%)	A\$m	310.5	355.3	14.4%	309.5	428.3	38.4%	289.3	429.6	48.5%
ZARm		3342.6	3825.3	14.4%	3471.6	4805.0	38.4%	3388.1	5030.8	48.5%
Tshipi Cash Costs (49.9%)	A\$m	-198.5	-229.2	15.5%	-192.3	-275.9	43.5%	-185.9	-286.0	53.8%
ZARm		-2136.5	-2466.9	15.5%	-2156.8	-3095.3	43.5%	-2176.9	-3348.5	53.8%
ZAR/mt		-1425.8	-1439.1	0.9%	-1439.3	-1490.0	3.5%	-1452.7	-1504.9	3.6%
Tshipi EBITDA (49.9%)	A\$m	112.0	126.2	12.6%	117.2	152.4	30.0%	103.4	143.7	38.9%
- margin		36%	36%	-1.6%	38%	36%	-6.1%	36%	33%	-6.5%
Tshipi, 100%, EBITDA	A\$m	224.5	252.9	12.6%	234.9	305.4	30.0%	207.3	287.9	38.9%
Tshipi, 100%, Cash dist	A\$m	131.1	123.4	-5.9%	157.1	177.3	12.9%	137.2	195.3	42.3%
% of EBITDA		58%	49%	-16.4%	67%	58%	-13.2%	66%	66%	2.5%
Tshipi, 100%, Cash dist	ZARm	1,411	1,328	-5.9%	1,762	1,989	12.9%	1,607	2,287	42.3%
Tshipi, 100%, EBITDA	ZARm	2417.1	2722.2	12.6%	2634.9	3426.2	30.0%	2427.3	3371.3	38.9%
Tshipi, 100%, EBITDA	US\$	164.6	185.4	12.6%	173.5	225.6	30.0%	153.4	213.0	38.9%
Tshipi NPAT (49.9%)	A\$m	75.6	85.8	13.5%	84.4	109.7	30.0%	74.5	103.4	38.9%
payout		87%	72%	-17.1%	93%	81%	-13.2%	92%	94%	2.5%
DPS		0.030	0.025	-16.7%	0.035	0.040	14.3%	0.030	0.045	50.0%

Source: Hartleys Estimates

Share Price	\$0.290
Valuation	\$0.47
12mth price target	\$0.46

#### Brief Business Description:

Manganese producer in Sth Africa (via 49.9% interest in Tshipi mine)

#### Hartleys Brief Investment Conclusion

Long mine life, low cost and highly incentivised management for shareholder friendly capital management. Risks are Sth Africa sovereign risk & manganese price volatility.

#### Chairman & MD

Brian Gilbertson (Chairman)

Priyank Thapliyal (CEO)

#### Top Shareholders

AMCI	17.2%
Stichting Pensioenfonds	12.9%
Posco	6.9%

#### Company Address

Level 10, 16 St Georges Terrace

Perth WA, 6000, Australia

Issued Capital 1959.0m

- fully diluted 1959.0m

Market Cap A\$568.1m

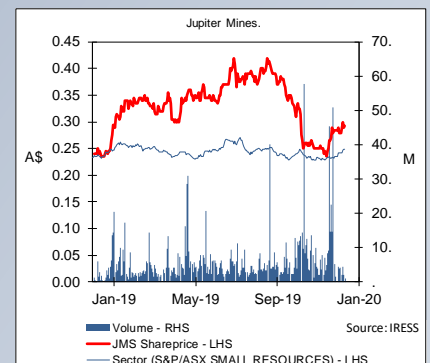
- fully diluted A\$568.1m

Cash (30 Nov 19p) A\$92.7m

Debt (30 Nov 19p) A\$0.0m

EV A\$475.4m

	Mt	Mn grade
Resources (Mt)	431.7	33%
Reserves (Mt)	94.24	36.49



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Fig. 2: Earnings Changes

Tshipi (49.9%)	Unit	28 Feb 19	29 Feb 20			28 Feb 21			28 Feb 22		
		actual	Old	New	% chg	Old	New	% chg	Old	New	% chg
Production (100%)	Mtpa	3.4	3.2	3.2	0.0%	3.0	3.0	0.0%	3.0	3.2	6.1%
Received Price	US\$/dmu	5.7	4.4	4.4	0.7%	4.5	4.5	0.0%	4.1	4.1	0.0%
AUD	US\$/A\$	0.72	0.68	0.69	0.8%	0.70	0.70	0.0%	0.70	0.70	0.0%
ZAR	Rand/US\$	14.2	14.6	14.6	0.0%	14.6	14.6	0.0%	14.6	14.6	0.0%
<b>Tshipi Revenue (49.9%)</b>	<b>A\$m</b>	<b>497.9</b>	<b>373.6</b>	<b>373.1</b>	<b>-0.1%</b>	<b>347.9</b>	<b>347.9</b>	<b>0.0%</b>	<b>323.6</b>	<b>343.1</b>	<b>6.0%</b>
	ZARm	5079.4	3736.4	3760.9	0.7%	3555.6	3555.6	0.0%	3307.7	3507.6	6.0%
<b>Tshipi Cash Costs (49.9%)</b>	<b>A\$m</b>	<b>-236.4</b>	<b>-207.9</b>	<b>-206.8</b>	<b>-0.6%</b>	<b>-209.6</b>	<b>-209.6</b>	<b>0.0%</b>	<b>-206.5</b>	<b>-218.9</b>	<b>6.0%</b>
	ZARm	-2411.8	-2079.5	-2083.9	0.2%	-2142.2	-2142.2	0.0%	-2110.5	-2237.4	6.0%
	ZAR/t	-1412.0	-1294.8	-1297.6	0.2%	-1429.6	-1429.6	0.0%	-1408.4	-1407.8	0.0%
Tshipi EBITDA (49.9%)	A\$m	261.5	165.7	166.4	0.4%	138.3	138.3	0.0%	117.1	124.3	6.1%
- margin		52.5%	44%	45%	0.6%	40%	40%	0.0%	36%	36%	0.1%
Tshipi, 100%, EBITDA	A\$m	522.9	332.0	333.4	0.4%	277.1	277.1	0.0%	234.7	249.0	6.1%
Tshipi, 100%, Cash dist	A\$m	316.1	236.3	237.3	0.4%	163.7	163.7	0.0%	137.4	133.8	-2.6%
% of EBITDA		60%	71%	71%	0.0%	59%	59%	0.0%	59%	54%	-8.2%
<b>Tshipi, 100%, Cash dist</b>	<b>ZARm</b>	<b>3,224</b>	<b>2,363</b>	<b>2,392</b>	<b>1.2%</b>	<b>1,673</b>	<b>1,673</b>	<b>0.0%</b>	<b>1,405</b>	<b>1,368</b>	<b>-2.6%</b>
Tshipi, 100%, EBITDA	ZARm	5345.9	3320.3	3360.6	1.2%	2832.4	2832.4	0.0%	2399.1	2545.4	6.1%
Tshipi, 100%, EBITDA	US\$	376.9	227.2	229.9	1.2%	194.0	194.0	0.0%	164.3	174.3	6.1%
<b>Tshipi NPAT (49.9%)</b>	<b>A\$m</b>	<b>189.5</b>	<b>114.3</b>	<b>114.8</b>	<b>0.4%</b>	<b>94.5</b>	<b>94.5</b>	<b>0.0%</b>	<b>79.3</b>	<b>84.4</b>	<b>6.5%</b>
payout		83%	103%	103%	0.0%	87%	87%	0.0%	87%	79%	-8.5%
<b>DPS</b>		<b>0.075</b>	<b>0.055</b>	<b>0.055</b>	<b>0.0%</b>	<b>0.0375</b>	<b>0.0375</b>	<b>0.0%</b>	<b>0.030</b>	<b>0.030</b>	<b>0.0%</b>

Source: Hartleys Estimates

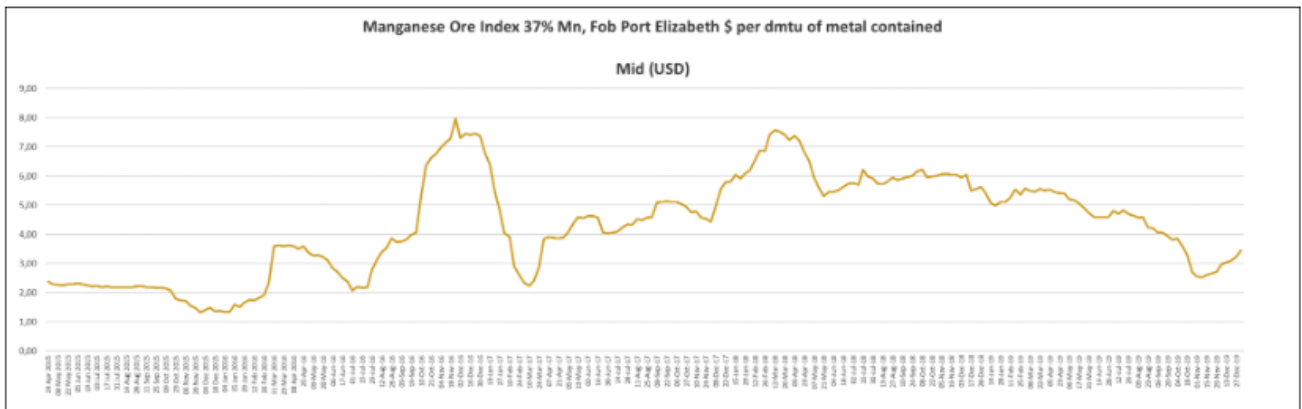
**Fig. 3: Key assumptions and risks for valuation**

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
Mine life	Low	High	We assume a long mine life. The mining right expires in 2040 but we assume it is extended.
Expansion to 4.5mtpa proceeds, but slower than guidance and higher capex	Moderate	High	We assume the expansion proceeds, but we are more conservative than early guidance. Our conservative assumptions means that the expansion only adds around 15% to our valuation.
Discount rate	Moderate	Upside	We assume a discount rate of 10%, real.
FX	Moderate	Meaningful	We assume that the Rand appreciates modestly in near term, and then depreciates again.
Selling prices rise from current prices	Moderate	Most significant	We assume manganese selling prices rebound but remain well below recent peak.
Project interest	Low	Modest	We assume JMS retains its 49.9% interest in Tshipi.
<b>Conclusion</b>		<i>We believe our assumptions around manganese selling prices are the most important for our valuation.</i>	

Source: Hartleys

**Fig. 4: Manganese Price (37% DMTU, fob)**

Week commencing 05/01/2020 - US\$3.44 (last week US\$3.24)



Source: JMS

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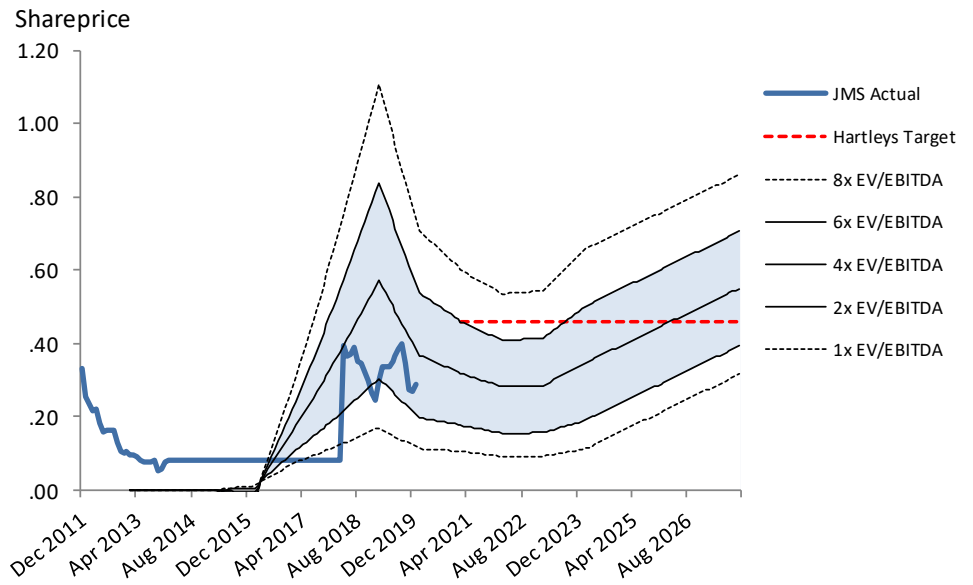
## PRICE TARGET

We have a twelve-month price target of 46cps (from 40cps previous).

Price Target Methodology	Weighting	Spot	12 mth out
NPV base case valuation	50%	\$0.47	\$0.46
NPV spot valuation	8%	\$0.41	\$0.40
NPV no 4.5mtpa expansion (base case prices)	5%	\$0.40	\$0.40
NPV no 4.5mtpa expansion (spot case prices)	5%	\$0.35	\$0.35
4x EV/EBITDA	5%	\$0.33	\$0.29
10x EV/EBITDA	5%	\$0.76	\$0.67
Dividend yield 6.0% base case	10%	\$0.50	\$0.63
Dividend yield 6.0% spot prices	12%	\$0.42	\$0.42
<b>Risk weighted composite</b>			<b>\$0.46</b>
<b>12 Months Price Target</b>			<b>\$0.46</b>
Shareprice - Last		\$0.2900	
<b>12 mth total return</b>			<b>68%</b>

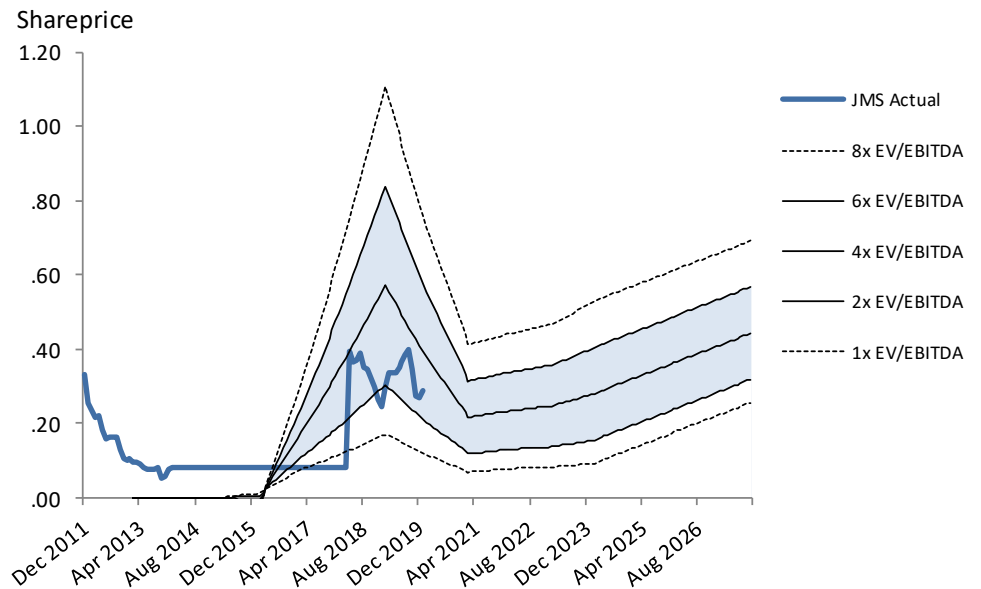
Source: Hartleys Research Estimates

**Fig. 5: Using Hartleys base case commodity forecasts**



Source: Hartleys Estimates, IRESS

**Fig. 6: Using spot commodity prices**



Source: Hartleys Estimates, IRESS

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*Note: personal email addresses of company employees are structured in the following manner: firstname.lastname@hartleys.com.au*

## Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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