



Jupiter Mines Ltd (JMS.ASX)

Expansion concept study signals value uplift

- Completion of expansion concept study; PT change.

Investment Highlights:

- **Jupiter Mines Ltd (JMS) announced completion of its Tshipi expansion concept study, which we estimate to be akin to scoping level.** The key outcome was that an expansion to 4.5Mtpa (from the current 3.0Mtpa) was deemed to be the most favourable case in terms of short lead time, lower capex, less reliance on road transportation, and regulatory expedience. Constraints to go beyond 4.5Mtpa included lack of water, logistics (e.g. rail capacity), and mining.
- **Capex for the expansion was estimated as ZAR1,025M (\$104M, 100%), at ±30% level of confidence.** This would include some optionality for potential future expansion beyond 4.5Mtpa. Ramp up to the targeted 4.5Mtpa will take two years post commissioning. The company will commence a feasibility study shortly, which together with commercial process (e.g. approvals, FID) is expected to take one year.
- **We believe an expansion would be a logical initiative for Tshipi.** Its large JORC Reserves means there is significant cash flow that currently is long-dated in its 30 year life-of-mine (LOM) based on JORC Reserves, and bringing this forward by increasing the production rate is compelling. LOM would reduce to approximately 20 years.
- **Given Tshipi e Ntle generates approximately ZAR2b p.a. in net free cash flow, it could easily fund the expansion solely from internal cash flows.** However with its lazy balance sheet (nil borrowings), the JV could use debt to fully or partially fund the expansion, if it wishes to maintain its attractive dividend payout ratio.
- **We estimate that successful execution of a 4.5Mtpa expansion case would increase JMS share valuation by \$0.19 to \$0.75, unrisks, based on the estimated capex ZAR1b.** We estimate payback for the expansion would be two years.
- **At a long-term 37% fob price of US\$3.53/dmtu, we estimate JMS' attributable EBITDA would increase to \$184M at 4.5Mtpa (vs \$102M at 3Mtpa).**

Earnings and Valuation:

- **We have made no changes to our earnings forecasts.**
- **However we have increased our JMS share valuation to \$0.60 from \$0.56 by attributing 25% of the incremental value from an expansion case (i.e. discounting the value uplift of \$0.19 by 75%).** We will review our valuation once further details or studies on any expansion case are released.

Recommendation:

- **We maintain our Buy recommendation and increase our 12-month price target to \$0.60 from \$0.56 based on our 1.0x Price/riskd NPV.**
- **Catalysts for the share price include:** Recovery in Mn prices; Cost reductions; Results of expansion feasibility study; and corporate activity.

Disclosures

The analyst owns 302,000 JMS shares. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 8,841,354 JMS shares. Cranport Pty Ltd owns 9,554,119 JMS shares. Refer details end of report.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$ 0.60
Previous	\$0.56
Share price (A\$)	\$ 0.293
ASX code	JMS
52 week low-high	0.23-0.43
JMS Valuation (A\$/share)	\$ 0.60
Methodology	riskd NPV

JMS Capital structure

Shares on Issue (M)	1,959
Market cap (A\$M)	573
Net cash (debt) attributable (A\$M)	93
EV (A\$M)	480
Ave daily volume ('000)	5,658

Earnings Y/e Feb A\$M	FY19a	FY20e	FY21e	FY22e
Sales adj*#	524	427	387	366
EBITDA adj.*	282	161	142	121
NPAT reported	142	104	91	76
NPAT adj*	188	104	91	76
EPS adj. \$*	0.10	0.05	0.05	0.04
PE x	3.0	5.5	6.3	7.6
EV/EBITDA x	1.7	3.0	3.4	4.0
DPS \$	0.075	0.056	0.039	0.032
Yield %	23%	17%	12%	10%

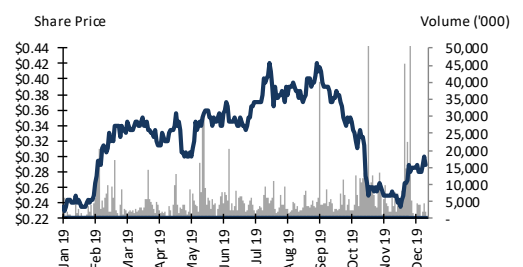
* Adj = underlying including attributable share of Tshipi

#CIF basis

JMS Board

Brian Gilbertson	Non-Executive Chairman
Priyank Thapliyal	CEO and Executive Director
Hans Mende	Non-Executive Director
Paul Murray	Non-Executive Director
Andrew Bell	Non-Executive Director
Yeongjin Heo	Non-Executive Director

Share price graph



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Jupiter Mines Ltd

Full Year Ended 28/29 February

Profit and Loss A\$M	2019a	2020e	2021e	2022e
Sales adj.*	524	427	387	366
Other revenue	1	1	1	1
Operating Costs adj.*	243	266	246	246
EBITDA adj.	282	161	142	121
D&A adj.	13	14	14	16
EBIT adj.	268	147	128	105
Net Interest exp / (income) adj.	-2	-2	-2	-3
Profit before tax adj	269	149	130	108
Tax exp / (benefit) adj	81	45	39	32
NPAT adj.	188	104	91	76
Non-recurring gain/(loss)	-46	-1	0	0
NPAT reported	142	104	91	76
EPS diluted adj. (\$)	0.10	0.05	0.05	0.04
DPS (\$)	0.075	0.056	0.038	0.032

All figures shown include JMS attributable share of Tshipi.

*CIF basis

Cashflow A\$M	2019a	2020e	2021e	2022e
EBITDA adj.	282	161	142	121
Equity accounting	-275	-156	-137	-116
Change in WC	-7	-3	0	2
Tax paid	-5	-2	-2	-2
Net interest	0	1	1	1
Other	8	30	0	0
Operating Cashflow	3	32	5	6
PPE	0	0	0	0
Exploration	-1	-1	-1	-1
Investments	0	0	0	0
Investing Cashflow	-1	-1	-1	-1
Equity issue	0	0	0	0
Loan repayment	0	0	0	0
Debt repayments/proceeds	0	0	0	0
Distributions received	151	83	64	67
Share buyback	-51	0	0	0
Dividends paid	-98	-127	-93	-69
Financing Cashflow	2	-44	-28	-1
Net Cashflow	4	-13	-24	4

Balance Sheet A\$M	2019a	2020e	2021e	2022e
Cash	73	61	36	40
Receivables	85	42	42	40
PPE	0	0	0	0
Capitalised exploration	11	11	11	11
Investments	423	447	473	479
Other	1	1	1	1
Total Assets	594	562	563	571
Accounts payable	133	133	25	25
Provisions	0	0	21	20
Debt	0	0	0	0
Other	51	51	82	84
Total Liabilities	184	184	127	129
Reserves and capital	407	411	411	411
Retained earnings	3	24	23	30
Total Equity	409	435	433	440

Capital structure

Ordinary shares	1,959
Fully diluted equity	1,959

Half year splits	1H FY19a	2H FY19a	1H FY20a	2H FY20e
Mn 37% RSA, FOB, US\$/dmu	6.32	5.70	4.94	3.47
Total Mn ore shipments Mt	1.9	1.6	1.7	1.6
Sales adj.*	273	238	231	184
EBITDA adj.	161	121	106	55
NPAT adj.	108	80	70	35

All figures shown include JMS attributable share of Tshipi.

*CIF basis

Financial Metrics	2019a	2020e	2021e	2022e
EPS growth %	116%	-45%	-13%	-17%
Gearing (ND/ND+E)	-22%	-16%	-9%	-10%
Interest Cover (EBIT/net int)	nm	nm	nm	m
Average ROE %	43%	25%	21%	17%
Average ROA %	48%	25%	23%	19%

Earnings multiples	2019a	2020e	2021e	2022e
P/E x	3.0	5.5	6.3	7.6
EV/EBITDA x	1.7	3.0	3.4	4.0
Dividend Yield %	26%	19%	13%	11%

Company Valuation

Segment	A\$M	A\$/share
Tshipi (49.9%)	889	\$ 0.45
Expansion case (discounted by 75%)	94	\$ 0.05
Marketing	59	\$ 0.03
Iron Ore	47	\$ 0.02
Corporate	-17	-\$ 0.01
Net cash - Tshipi attributable	49	\$ 0.03
Net cash - JMS consolidated	44	\$ 0.02
Equity	1,166	\$ 0.60

Tshipi - Assumptions	2019a	2020e	2021e	2022e
Mn 44% China, CIF, US\$/dmu	7.16	5.68	5.25	4.97
Mn 37% RSA, FOB, US\$/dmu	6.01	4.20	3.76	3.57
JMS Mn realised, FOB, US\$/dmu	5.14	3.93	3.59	3.41
A\$:US\$	0.74	0.70	0.70	0.71
Rand:US\$	13.62	14.51	14.44	14.36
Mn ore production	3.45	3.36	3.30	3.30
Mn ore shipments Mt	3.51	3.35	3.30	3.30
Cash costs US\$/dmu HG, FOB	2.21	2.02	2.04	2.07

JORC Resources and Reserves Mn

Tshipi	Ore Mt	Mn grade %
Total Reserves	94	36.5%
Measured	92	34.2%
Indicated	112	33.7%
Inferred	227	32.5%
Total Resource	432	33.2%

Mt Ida & Mt Mason	Ore Mt	Fe grade %
Total Resource	1,852	36.8%

Major shareholders

	%
Stichting Pensioenfond ABP	14.8%
Hans J Mende	12.9%
Fritz R Kundrun	12.3%
AMCI Euro Holdings BV	7.4%
POSCO Australia GP Pty Ltd	6.9%

Source: Foster Stockbroking estimates.

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Specific disclosures: As of close of business 7 January 2020, Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) owned 8,841,354 JMS shares. Cranport Pty Ltd owns 9,554,119 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.

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.