



Jupiter Mines Ltd (JMS.ASX)

High freight rates crimp earnings

Event:

- 1Q FY22 Quarterly Report; PT change.

Investment Highlights:

- Tshipi (100%) reported an NPAT of \$16M, below our estimate and the preceding 4Q FY21 NPAT, both of which were \$26M.** The key difference was higher realisation (CIF) costs of US\$1.21/dmtu vs our estimate of US\$0.38 and 4Q of US\$0.36. So while Mn 37% CIF during the quarter was US\$4.56/dmtu – up 16% on the 4Q – the FOB price was only US\$3.35/dmtu, down -6%. This translated to lower net sales and NPAT.
- CIF likely to remain high for next few months.** The spike in CIF costs is reflective of the current strong commodity demand environment and relative tight vessel supply. JMS management stated that they expect this to remain elevated for the next three to six months.
- Production higher than expected, but mine volumes below target.** Tshipi produced 1.05Mt of ore for the quarter, well above our estimate of 0.89Mt, while shipments of 0.85Mt were in-line (FSBe 0.83Mt). Total mined material was 4Mbcm for the quarter, but could have been higher if not for disruptions such as COVID and improper drill and blast. The company is seeking to achieve at least 4.5Mbcm per quarter, a key prerequisite before considering any expansion at Tshipi.
- Costs reduction initiatives.** Tshipi is examining new mining equipment, owner-operator mining, and shipping on larger vessels via Coega as part of a drive to achieve cost reduction and improving productivity. Recent implemented savings include owner-operator of secondary crusher, connecting to Eskom grid, and consistent shipment through Luderitz.
- The company ended 1QFY22 with \$51M attributable cash,** comprising \$24M consolidated and \$27M as share of Tshipi cash.

Earnings and Valuation:

- We downgrade JMS earnings -13% to \$48M from \$55M in FY22e based on higher CIF and lower FOB price.** Our FY23e NPAT rises 9% to \$70M based on a weaker Rand.
- Our NPV₁₀ share valuation reduces to \$0.52 from \$0.54.** This is mostly based on downgrade to our long-term 37% Mn FOB price to US\$3.87/dmtu from \$4.02/dmtu, and downgrade to FY22e earnings, offset by FY23e-FY24e earnings upgrades.

Recommendation:

- We maintain our Buy recommendation, lowering our 12-month price target of \$0.52 (prior \$0.54) based on 1.0x Price/NPV.**
- Catalysts for the share price** include higher Mn prices; lower freight rates; cost reductions; Tshipi expansion FID; and corporate activity.

Disclosures

The analyst owns 476,276 JMS shares.
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 8,647,061 JMS shares.
Cranport Pty Ltd owns 6,000,000 JMS shares.
Refer details end of report.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$ 0.52			
Previous	\$0.54			
Share price (A\$)	\$ 0.290			
ASX code	JMS			
52 week low-high	0.248-0.365			
JMS Valuation (A\$/share)	\$ 0.52			
Methodology	NPV			
JMS Capital structure				
Shares on Issue (M)	1,959			
Market cap (A\$M)	568			
Net cash (debt) attributable (A\$M)	51			
EV (A\$M)	517			
Ave daily volume ('000)	4,933			
Earnings Y/e Feb A\$M	FY21a	FY22e	FY23e	FY24e
Sales adj*#	313	329	331	335
EBITDA adj.*	100	78	104	104
NPAT reported	68	48	70	66
NPAT adj*	68	48	70	66
EPS adj. c*	3.5	2.8	3.3	3.2
PE x	9.8	12.0	10.4	10.5
EV/EBITDA x	5.9	6.6	6.4	6.1
DPS c	3.0	2.2	3.2	3.0
Yield %	10.3%	7.6%	10.9%	10.4%

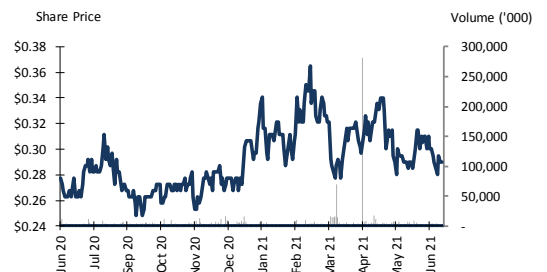
* Adj = underlying including attributable share of Tshipi

#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 End February

Profit and Loss A\$M	2021a	2022e	2023e	2024e
Sales adj.*	313	329	331	335
Other revenue	1	1	1	1
Operating Costs adj.*	214	251	227	231
EBITDA adj.	100	78	104	104
D&A adj.	10	10	5	9
EBIT adj.	90	68	100	95
Net Interest exp / (income) adj.	-7	-1	-1	0
Profit before tax adj	97	69	100	95
Tax exp / (benefit) adj	29	21	30	28
NPAT adj.	68	48	70	66
Non-recurring gain/(loss)	0	0	0	0
NPAT reported	68	48	70	66

EPS diluted adj. (c)	3.5	2.5	3.6	3.4
DPS (c)	3.0	2.2	3.2	3.0

All figures shown include JMS attributable share of Tshipi.

*Includes realisation costs

Cashflow A\$M	2021a	2022e	2023e	2024e
EBITDA adj.	100	78	104	104
Equity accounting	-96	-73	-99	-98
Change in WC	-4	-10	0	0
Tax paid	-2	-1	-1	-1
Net interest	0	1	1	1
Other	6	0	0	0
Operating Cashflow	3	-5	5	5

PPE	0	0	0	0
Exploration	-2	-2	-2	-2
Dividends received	70	40	50	58
Investments	0	0	0	0
Investing Cashflow	68	37	47	55
Equity issue	0	0	0	0
Loan repayment	0	0	0	0
Debt repayments/proceeds	0	0	0	0
Share buyback	0	0	0	0
Dividends paid	-34	-55	-53	-61
Financing Cashflow	-34	-55	-53	-61
Net Cashflow	38	-23	0	0

Balance Sheet A\$M	2021a	2022e	2023e	2024e
Cash	61	38	38	38
Receivables	46	45	45	45
PPE	0	0	0	0
Investment held for sale (incl JNO cash)	17	0	0	0
Investments	431	436	454	460
Other	1	1	1	1
Total Assets	556	520	538	544
Accounts payable	42	21	22	22
Provisions	0	19	19	19
Debt	0	0	0	0
Other	54	44	44	44
Total Liabilities	97	85	85	85
Reserves and capital	410	393	393	393
Retained earnings	49	43	60	66
Total Equity	459	435	453	458

Capital structure	M
Ordinary shares	1,959
Fully diluted equity	1,959

Half year splits	1H FY21a	2H FY21a	1H FY22e	2H FY22e
Mn 37% RSA, FOB, US\$/dmu	4.21	3.46	3.35	3.81
Total Mn ore shipments Mt	1.2	2.2	1.7	1.7
Sales adj.*	130	175	155	164
EBITDA adj.	51	49	30	48
NPAT adj.	36	32	18	30

All figures shown include JMS attributable share of Tshipi.

*Includes realisation

Financial Metrics	2021a	2022e	2023e	2024e
EPS growth %	-31%	-29%	45%	-5%
Gearing (ND/ND+E)	-15%	-10%	-9%	-9%
Interest Cover (EBIT/net int)	nm	nm	nm	nm
Average ROE %	15%	11%	16%	15%
Average ROA %	17%	13%	19%	18%

Earnings multiples	2021a	2022e	2023e	2024e
P/E x	8.4	11.8	8.1	8.5
EV/EBITDA x	5.2	6.6	5.0	5.0
Dividend Yield %	10.3%	7.6%	10.9%	10.4%

Company Valuation	A\$M	A\$/share
Segment		
Tshipi (49.9%)	753	\$ 0.38
Expansion case (discounted by 75%)	173	\$ 0.09
Marketing	71	\$ 0.04
Corporate	-26	-\$ 0.01
Net cash - Tshipi attributable	28	\$ 0.01
Net cash - JMS consolidated	24	\$ 0.01
Equity	1,022	\$ 0.52

Tshipi - Assumptions	2021a	2022e	2023e	2024e
Mn 44% China, CIF, US\$/dmu	5.00	4.97	4.82	4.81
Mn 37% RSA, FOB, US\$/dmu	3.83	3.58	3.98	3.97
Tshipi Mn realised, CIF, US\$/dmu	3.75	4.24	4.20	4.19
A\$:US\$	0.71	0.77	0.76	0.75
Rand:US\$	16.48	14.96	15.27	15.38
Mn ore production Mt	3.35	3.53	3.30	3.30
Mn ore shipments Mt	3.42	3.32	3.30	3.30
Cash costs US\$/dmu hi grade, FOB	2.00	2.12	2.20	2.21
Cash costs US\$/dmu total product, CIF	2.59	3.28	2.91	2.93

JORC Resources and Reserves Mn	Ore Mt	Mn grade %
Tshipi		
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	%
Safika Resources	19.9%
Hans J Mende (incl AMCI)	12.9%
Fritz R Kundrun (incl AMCI)	12.3%
AMCI Euro Holdings BV	7.4%
POSCO Australia GP Pty Ltd	6.9%

Source: Foster Stockbroking estimates.

TSHIPI 1Q FY22 RESULT

High freight rates crimp earnings

- JMS's 1QFY22 report showed Tshipi delivered NPAT of \$16M, below our estimate and prior 3Q result, both of which were \$26M. The difference was mostly due to higher realisation (CIF) costs, with CIF being US\$1.21/dmtu during the 1Q, vs our estimate of US\$0.38/dmtu and 4Q actual of US\$0.36/dmtu. So while the Mn 37% CIF price received in the 1QFY22 was attractive at US\$4.56/dmtu – up 16% on the preceding 4QFY21 – we estimate the FOB price of US\$3.35/dmtu was down -6%. This translated to lower sales and NPAT for Tshipi vs the 4QFY21 and our own estimates.

Figure 1: Tshipi 1Q FY22 Performance (100%)

Metric	Unit	1QFY22	4QFY21	FSBe 1QFY22	Diff vs FSBe	Diff vs 4QFY21
Production	Mt	1.05	0.89	0.83	27%	18%
Shipments	Mt	0.85	1.05	0.83	3%	-19%
Mn RSA 37% FOB	US\$/dmtu	3.35	3.57	3.82	-12%	-6%
Mn China 37%, CIF	US\$/dmtu	4.56	3.93	4.20	9%	16%
A\$:US\$		0.77	0.77	0.75	3%	0%
ZAR:US\$		14.49	14.92	15.06	-4%	-3%
Cash costs high-grade fob	US\$/dmtu	2.25	2.24	2.12	6%	1%
	ZAR/dmtu	32.66	33.44	31.90	2%	-2%
Sales*	A\$M	107	131	158	-32%	-18%
EBITDA**	A\$M	26	41	30	-13%	-37%
NPAT	A\$M	16	26	26	-38%	-38%
Operating cash flow	A\$M	8	2	12	-36%	285%
Cash	A\$M	55	44	57	-4%	25%

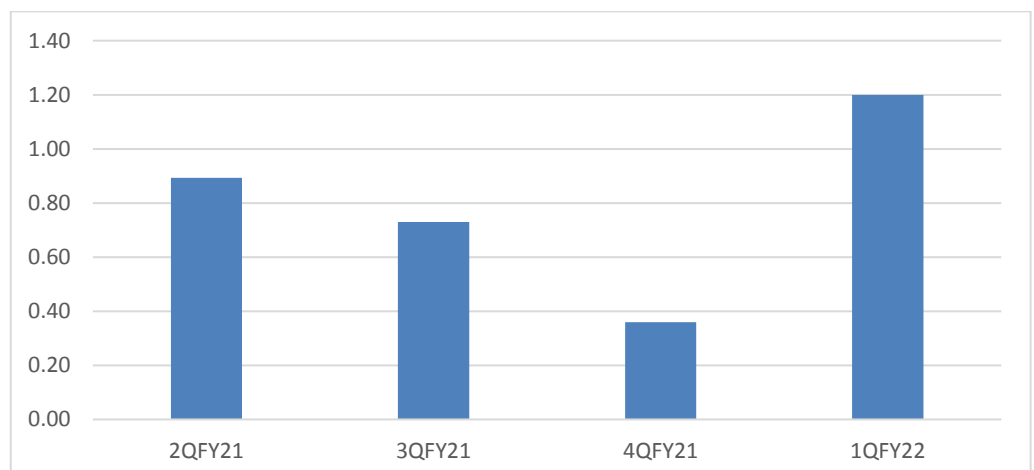
*Sales net of realisation costs.

**EBITDA excludes royalty.

Source: Company; Foster Stockbroking estimates.

- The spike in the CIF is reflective of general strong demand across most commodities globally, especially bulks, and the relative tight supply of vessels. JMS stated it expected CIF charges to remain at around current elevated levels for the next three to six months.

Figure 2: Tshipi CIF US\$/dmtu



Source: Company; Foster Stockbroking estimates.

**Production higher than expected, but mine volume below target**

- Production of 1.05Mt for the quarter was well above our estimate of 0.89Mt, while shipments were in-line (0.85Mt vs FSBe 0.83Mt). Total mined material was 4Mbcm for the quarter, but could have been higher if not for events such as improper drill and blast and disruption from a new wave of COVID. The company is targeting at least 4.5Mbcm per quarter, which is a pre-requisite for any expansion of Tshipi production. FOB costs high-grade were US\$2.25/dmtu, in-line with the 4QFY21's US\$2.24/dmtu, but below our forecast of US\$2.12/dmtu
- Initiatives Tshipi is examining are new mining equipment (e.g. excavators), owner-operator mining, and shipping via large vessels through Coega. Recent completed cost-saving programs include steady state shipping through Luderitz, ownership of secondary crusher, and connection to Eskom grid.
- JMS Marketing achieved NPAT of \$1.0M for the quarter, down on the 4QFY21's \$1.4M and our estimate of \$1.6M, due to the higher CIF charge.

Corporate

- JMS had attributable cash of \$51.4M end May, with \$24.0M consolidated and an equity share of \$27.4M.

COMMODITY FORECASTS**Downgrade to LT FOB price; higher CIF in FY22**

- We have revised our commodity forecasts, with main change being higher Mn CIF 37% price and low Mn 37% FOB price in FY22e, due to spike in freight rates, as well as 4% cut to our long-term Mn 37% FOB price to US\$3.87/dmtu from \$4.02/dmtu. All other changes are minor.

Figure 3: Commodity price changes

		FY21e	FY22e	FY23e	FY24e	LT
Mn 37% fob RSA	New	3.83	3.58	3.98	3.97	3.87
	<i>Old</i>	3.83	3.82	3.96	4.02	4.02
	<i>Chng</i>	0%	-6%	1%	-1%	-4%
Mn 37% cif China	New	4.33	4.55	4.40	4.39	4.30
	<i>Old</i>	4.33	4.20	4.34	4.40	4.41
	<i>Chng</i>	0%	8%	1%	0%	-2%
Mn 44% cif china	New	5.00	4.97	4.82	4.81	4.73
	<i>Old</i>	5.00	4.62	4.76	4.82	4.84
	<i>Chng</i>	0%	8%	1%	0%	-2%
US\$:ZAR	New	16.48	14.96	15.27	15.38	15.41
	<i>Old</i>	16.48	15.06	15.13	15.38	15.41
	<i>Chng</i>	0%	-1%	1%	0%	0%
A\$:US\$	New	0.71	0.77	0.76	0.75	0.74
	<i>Old</i>	0.71	0.75	0.75	0.75	0.75
	<i>Chng</i>	0%	3%	1%	0%	-1%

Source: Foster Stockbroking estimates.



EARNINGS CHANGES

- Following higher CIF costs, we have downgraded our forecast FY22e NPAT -13% to \$48M from \$55M. For FY23e we have increased NPAT by 9% to \$70M from \$64M, due to weaker Rand impacting favourably on cost translation to A\$, and easing of CIF costs.

Figure 4: JMS Earnings Forecasts Changes

Y/e February	FY22e			FY23e		
	new	old	chnge	new	old	chnge
Assumptions:						
Mn 37% RSA fob, US\$/dm tu	3.58	3.82	-2%	3.98	3.96	1%
Mn 37% RSA cif, US\$/dm tu	4.55	4.20	-2%	4.40	4.34	1%
A\$:US\$	0.77	0.74	0%	0.76	0.75	1%
ZAR:US\$	14.96	15.06	-5%	15.27	15.13	1%
Shipments, Mt	3.32	3.30	0%	3.30	3.30	0%
FOB costs, US\$/dm tu, HG product	2.12	2.12	3%	2.20	2.20	0%
JMS Profit & Loss \$M						
Tshipi attrib.	319	315	-2%	321	321	0%
Marketing	10	9	-6%	10	10	0%
Sales	329	324	-2%	331	331	-1%
Other	1	1	0%	1	1	0%
Total revenue	329	325	-2%	332	331	-0%
Tshipi attrib.	247	232	3%	223	235	-5%
Marketing	1	1	0%	1	1	0%
Corporate	4	4	0%	4	4	0%
Cash costs	251	236	3%	227	240	-5%
Tshipi attrib.	73	83	-13%	99	86	15%
Marketing	9	9	0%	9	9	0%
Corporate	-4	-3	0%	-3	-3	0%
EBITDA adj.	78	89	-12%	104	92	13%
D&A	10	15	0%	5	5	%
EBIT	68	74	-14%	100	87	14%
						-
Net interest expense	-1	-5	0%	-1	-4	87%
PBT	69	79	5%	100	91	10%
Tax	21	24	-12%	30	27	11%
Tshipi attrib.	46	52	-14%	67	62	9%
Marketing	6	6	5%	6	6	7%
Corporate	-4	-3	0%	-4	-4	-3%
NPAT adj.	48	55	-13%	70	64	9%
Non-recurring items	0	0	0%	0	0	0%
NPAT reported	48	55	-13%	70	64	9%

**All figures adjusted for non-recurring items.*

Source: Foster Stockbroking estimates.

**VALUATION**

- Our JMS share NPV₁₀ valuation has reduced to \$0.52 from \$0.54, mostly based on downgrade to FY22e earnings and lower LT Mn price, slightly offset by upgrades to FY23e and FY24e.

Figure 5: JMS Valuation

Segment	\$M	\$/share
Tshipi (49.9%)	753	\$0.38
Expansion case (discounted by 75%)	173	\$0.09
Marketing	71	\$0.04
Corporate	-26	-\$0.01
Net cash - Tshipi attributable	28	\$0.01
Net cash - JMS consolidated	24	\$0.01
Equity	1,022	\$0.52
Shares	1,959	

Source: Foster Stockbroking estimates.

RECOMMENDATION**Maintain Buy, 12-month PT \$0.52 (prior \$0.54)**

- We maintain our Buy on JMS, with a 12-month PT of \$0.52 (prior \$0.54) based on our NPV₁₀ valuation.
- Catalysts include higher Mn fob prices; lower freight rates; Tshipi expansion; and corporate activity.

**FOSTER STOCKBROKING DISCLAIMERS**

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Specific disclosures: As of close of business 29 June 2020, Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) owned 8,647,061 JMS shares. Cranport Pty Ltd owns 6,000,000 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.

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.