



Jupiter Mines Ltd (JMS.ASX)

No surprises as 4Q mostly delivers

Event:

- 4Q FY19 result; Formal process to review iron ore assets.

Investment Highlights:

- Jupiter Mines Ltd (JMS) unaudited 4Q report largely met our expectations.** Tshipi (100%) generated NPAT of \$88.5M in-line with our forecast of \$91.2M, while JMS Marketing reported NPAT of \$3.4M vs our estimate of \$3.5M.
- We deduced that JMS's attributable NPAT – comprising 49.9% Tshipi share, Marketing, and Corporate (not reported) – for the 4Q was \$44.2M in-line with our forecast of \$45.6M.**
- 4Q shipments were 0.85Mt in-line with our 0.83Mt estimate, and resulted in total of 3.5Mt for FY19e, as per previous company guidance.** 4Q FOB costs of US\$2.27/dmtu were slightly higher than our forecast of \$2.16 due to higher strip ratio and greater proportion of product trucked vs railed.
- JMS had attributable cash of \$100M end 4QFY19 (\$73M consolidated plus \$27M share of Tshipi).** \$49M of cash has been earmarked for payment in May 2019 of the recently declared 2.5 cps dividend.
- The company recently announced it has initiated a process to review strategic options for its Central Yilgarn Iron Ore projects.** We believe that the market is not ascribing any value to the assets, especially given the recent rally in iron ore markets. We expect the preference of JMS is to divest the assets, as it does not want to contribute further funds to their development.
- We currently value JMS's iron ore assets at \$47M, or \$0.02/share, based on EV per JORC Resource tonne of contained Fe multiple.** We use a multiple of \$0.07/t contained Fe which is the average of select ASX listed pure iron ore explorers.

Earnings and Valuation:

- Earnings revisions.** We have made only slight changes with FY19e NPAT reduced -1% to \$190M, FY20e -2% to \$125M, and FY21e -2% to \$103M on modest cost revisions.
- Our share valuation has reduced slightly to \$0.61 from \$0.63 based on earnings changes.**
- JMS has mitigated its marked discount to manganese peers over the past month, and is now trading at 5.3x PE and 3.1x EV/EBITDA on FY20e earnings, which are at 36% and 13% discount to peers' average of 8.3x and 3.6x.**

Recommendation:

- We maintain our Buy recommendation with a revised 12-month price target of \$0.61 (prior \$0.63) based on our 1.0x Price/NPV.** Catalysts for the share price include final FY19e earnings report; higher Mn prices; cost reductions; further dividends; realisation of value for iron ore assets; and corporate activity.

Disclosures

The analyst owns 302,000 JMS shares.
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 9,272,604 JMS shares.
Cranport Pty Ltd owns 10,500,000 JMS shares.
Refer details end of report.

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.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$ 0.61			
Previous	\$0.63			
Share price (A\$)	\$ 0.340			
ASX code	JMS			
52 week low-high	0.23-0.43			
JMS Valuation (A\$/share)	\$ 0.61			
Methodology	DCF			
JMS Capital structure				
Shares on Issue (M)	1,959			
Market cap (A\$M)	666			
Net cash (debt) attributable (A\$M)	100			
EV (A\$M)	566			
Ave daily volume ('000)	4,777			
Earnings Y/e Feb A\$M	FY18a	FY19e	FY20e	FY21e
Sales adj*#	372.2	523.7	412.6	377.9
EBITDA adj.*	154.5	282.7	180.2	147.4
NPAT reported	92.0	188.5	125.1	102.7
NPAT adj*	96.1	190.3	125.1	102.7
EPS adj. \$*	0.045	0.097	0.064	0.052
PE x	7.6	3.5	5.3	6.5
EV/EBITDA x	3.7	2.0	3.1	3.8
Distribution \$/sh^	0.038	0.075	0.052	0.043
Yield %	11%	22%	15%	13%

* Adj =underlying including attributable share of Tshipi

#CIF basis

^ Incl. share buyback in FY18.

JMS Board

Brian Gilbertson	Non-Executive Chairman
Priyank Thapliyal	CEO and Executive Director
Melissa North	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	2018a	2019e	2020e	2021e
Sales adj.*	372.2	523.7	412.6	377.9
Other revenue	0.3	0.9	0.9	0.9
Operating Costs adj.*	218.1	241.9	233.3	231.4
EBITDA adj.	154.5	282.7	180.2	147.4
D&A adj.	13.1	13.4	3.8	3.8
EBIT adj.	141.4	268.3	176.7	143.9
Net Interest exp / (income) adj.	2.6	-3.6	-2.0	-2.8
Profit before tax adj	138.8	271.9	178.7	146.7
Tax exp / (benefit) adj	42.5	81.6	53.6	44.0
NPAT adj.	96.1	190.3	125.1	102.7
Non-recurring gain/(loss)	-4.1	-1.8	0.0	0.0
NPAT reported	92.0	188.5	125.1	102.7

EPS diluted adj. (\$)	0.045	0.097	0.064	0.052
Distribution per share (\$) ^	0.038	0.075	0.052	0.043

All figures shown include JMS attributable share of Tshipi.

*CIF basis

^Includes share buyback in FY18.

Cashflow A\$M	2018a	2019e	2020e	2021e
EBITDA adj.	212.3	282.7	180.2	147.4
Equity accounting	-147.7	-276.0	-176.0	-144.2
Change in WC	9.5	-7.1	5.0	4.2
Tax paid	0.0	-5.0	-2.3	-1.4
Net interest	0.3	0.6	1.5	0.6
Other	-63.6	4.4	0.0	0.0
Operating Cashflow	10.7	-0.2	8.4	6.6
PPE	0.0	0.0	0.0	0.0
Exploration	-0.9	0.1	0.1	0.1
Investments	3.1	0.0	0.0	0.0
Investing Cashflow	2.2	0.1	0.1	0.1

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	152.7	50.8	91.4
Share buyback	-93.6	-26.7	0.0	0.0
Dividends paid	-8.8	-122.3	-100.0	-93.1
Financing Cashflow	-22.2	3.7	-49.2	-1.7
Net Cashflow	-9.3	3.6	-40.6	5.1

Balance Sheet A\$M	2018a	2019e	2020e	2021e
Cash	76.5	72.8	32.2	37.2
Receivables	45.9	54.4	49.5	45.3
PPE	0.0	0.0	0.0	0.0
Capitalised exploration	8.7	9.3	9.3	9.3
Investments	385.3	423.4	496.9	508.1
Other	1.4	9.0	9.0	9.0
Total Assets	517.8	568.9	596.8	608.9
Accounts payable	49.0	77.9	77.9	77.9
Provisions	0.0	21.5	19.2	19.0
Debt	0.0	0.0	0.0	0.0
Other	2.6	-36.7	-31.6	-28.9
Total Liabilities	51.6	62.7	65.5	68.0
Reserves and capital	434.1	406.6	406.6	406.6
Retained earnings	32.0	99.7	124.7	134.3
Total Equity	466.2	506.2	531.3	540.9

Capital structure	
Ordinary shares	1,959.0
Fully diluted equity	1,959.0

Half year splits	1H FY18a	2H FY18a	1H FY19e	2H FY19e
Mn 37% RSA, FOB, US\$/dmu	3.98	5.51	6.32	5.70
Total Mn ore shipments Mt	1.6	1.8	1.9	1.6
Sales adj.*	143.3	217.7	273.0	237.5
EBITDA adj.	57.3	155.0	160.6	122.1
NPAT adj.	35.1	109.8	108.5	81.8

All figures shown include JMS attributable share of Tshipi.

*CIF basis

Financial Metrics	2018a	2019e	2020e	2021e
EPS growth %	125%	118%	-34%	-18%
Gearing (ND/ND+E)	-20%	-17%	-6%	-7%
Interest Cover (EBIT/net int)	nm	nm	nm	m
Average ROE %	20%	39%	24%	19%
Average ROA %	28%	49%	30%	24%

Earnings multiples	2018a	2019e	2020e	2021e
P/E x	7.6	3.5	5.3	6.5
EV/EBITDA x	3.7	2.0	3.1	3.8
Dividend Yield %	11%	22%	15%	13%

Company Valuation	A\$M	A\$/share
Segment		
Tshipi (49.9%)	1,029	\$ 0.53
Marketing	73	\$ 0.04
Iron Ore	47	\$ 0.02
Corporate	-47	-\$ 0.02
Net cash - Tshipi attributable	27	\$ 0.01
Net cash - JMS consolidated	73	\$ 0.04
Equity	1,202	\$ 0.61

Tshipi - Assumptions	2018a	2019e	2020e	2021e
Mn 44% China, CIF, US\$/dmu	6.20	7.16	5.73	5.28
Mn 37% RSA, FOB, US\$/dmu	4.74	6.01	4.82	4.37
JMS Mn realised, FOB, US\$/dmu	4.65	5.14	5.10	4.68
A\$:US\$	0.77	0.74	0.74	0.74
Rand:US\$	13.08	13.62	14.47	14.88
Mn ore production	3.64	3.45	3.30	3.30
Mn ore shipments Mt	3.34	3.51	3.30	3.30
Cash costs US\$/dmu, FOB	1.96	2.22	2.15	2.13

JORC Resources and Reserves Mn	Ore Mt	Mn grade %
Tshipi		
Total Reserves	86	36.3%
Measured	103	34.1%
Indicated	119	33.5%
Inferred	237	32.5%
Total Resource	460	33.1%

Mt Ida & Mt Mason	Ore Mt	Fe grade %
Total Resource	1852	36.8%

Major shareholders	%
Stichting Penioenfunds ABP	14.8%
Pallinghurst Consolidated (Dutch) BV	7.4%
POSCO Australia GP Pty Ltd	6.9%
HJM Jupiter LP	5.0%

Source: Foster Stockbroking estimates.



4Q REPORT REVIEW – MOSTLY IN-LINE AS TARGET SALES ACHIEVED

- Jupiter Mines Ltd’s (JMS) unaudited 4Q report showed Tshipi generated NPAT of \$88.5M (100%), in-line with our forecast of \$91.2M. In terms of JMS’s attributable Tshipi share (49.9%), NPAT equated to \$44.2M vs our forecast of \$45.6M. JMS’s Marketing division generated NPAT of \$3.4M, in-line with our estimate of \$3.5M.
- We deduce that JMS’s attributable 4QFY19e NPAT – comprising 49.9% Tshipi share, Marketing, and Corporate (not reported) - for the 4Q was \$44.2M, or 3% below our forecast of \$45.6M (Figure 1).

Slightly higher FOB cost the difference

- The chief reason for the slightly lower JMS attributable NPAT seemed to be higher FOB costs in the 4Q of US\$2.27/dmtu, which was 5% above our estimate of \$2.16 and the \$2.00 achieved in the 3Q. Key contributors were higher strip ratio of 12.9x during the quarter vs the 10.4x we had forecast and the 11.0x achieved in the 3Q, as well as greater proportion of material trucked vs railed.
- JMS attributable sales of \$130M were a touch above our forecast of \$128M, and partially offset the higher costs.

Figure 1: JMS and Tshipi 4Q FY19 Performance

	4Qa/e	3Qa	4Q FSBe	4Qa/e Diff vs FSBe
Tshipi Production Mt	0.80	0.86	0.83	-3%
Tshipi Mn shipments Mt	0.85	0.79	0.83	2%
Mn price 37% FOB US\$/dmtu	5.38	6.02	5.76	-7%
Mn price 37% CIF US\$/dmtu	6.13	6.43	6.29	-3%
Strip ratio bcm:bcm x	12.9x	11.0x	10.4x	24%
Cash costs FOB US\$/dmtu	2.27	2.00	2.16	5%
JMS Profit & Loss \$M:				
Tshipi attrib.*	126.1	111.3	123.6	2%
Marketing	4.0	2.7	3.7	8%
Sales adj.	130.1	114.0	127.3	2%
Other	0.3	0.3	0.3	0%
Revenue adj.	130.4	114.3	127.6	2%
Tshipi attrib.*	61.9	56.1	57.5	8%
Marketing	0.6	0.2	0.2	200%
Corporate	1.9	1.9	1.9	2%
Total cash costs adj.	66.0	58.2	59.6	8%
Tshipi attrib.	64.3	55.3	66.2	-3%
Marketing	3.4	2.5	3.5	-3%
Corporate	-1.9	-1.9	-1.6	22%
EBITDA adj.	66.0	56.1	68.0	-3%
Tshipi attrib.	44.2	38.0	45.6	-3%
Marketing	2.4	1.5	2.2	9%
Corporate & other	-2.3	-1.9	-2.1	11%
NPAT adj	44.2	37.6	45.6	-3%
Non-recurring items	0.0	0.0	0.0	0%
NPAT reported	44.2	37.6	45.6	-3%

Source: Company; Foster stockbroking estimates.

*Tshipi attrib. sales and costs shown on CIF basis.

**Target shipments of 3.5Mt for FY19e achieved**

- Tshipi shipments in the 4Q were 0.85Mt in-line with our 0.83Mt forecast, and resulted in total shipments for the year being 3.5Mt, as per company's previous guidance. Shipments were ahead of production of 0.79Mt, due to deferred shipments of product from the 3Q.

Attributable cash \$100M end 4QFY19e, or \$51M post-dividend

- JMS' attributable cash at the end of the period was \$100M, which was below our estimate of \$124M. The reason was the lower than expected operating cash flow of Tshipi in the 4Q of \$5M vs our estimate of \$82M. This was due to higher tax and royalty payments made by Tshipi as reconciliations for the full year.
- The attributable cash of \$100M is prior to the JMS final dividend payment, which is due May 2019. Adjusted pro-forma for payment of the \$49M dividend (2.5cps) will result in attributable cash of \$51M.

Figure 2: JMS and Tshipi Cash Balance \$M

	4QFY19	3QFY19	4QFSBe	Diff vs FSBBe
NPAT Tshipi (100%)	89	76	91	-3%
Operating cash flow (Tshipi 100%)	5	82	82	-94%
JMS cash consolidated	73	18	6	nm
Cash Tshipi 49.9%	27	78	118	-77%
JMS attributable cash	100	96	124	-19%

Source: Company; Foster stockbroking estimates.

IRON ORE – SEEKING TO REALISE VALUE

- JMS this week announced it had initiated a process to review strategic options regarding its iron ore assets, which comprise the eponymously located Central Yilgarn Iron Ore Projects (CYIOP) in Western Australia. The CYIOP comprises two assets – Mt Mason and Mt Ida. These have been on care and maintenance since 2015, when iron ore markets were depressed and JMS was focusing on development and commissioning of the Tshipi mine.
- With the Tshipi mine now well established, the company having relisted on ASX, a recent rally in iron ore equities and prices, and the belief that the market is attributing negligible, if any, value to the iron ore projects, JMS has decided now is an opportune time to launch a review.
- We believe strategic option desired is a divestment, as JMS has indicated it does not want to fund or develop the projects.

Mount Mason – DSO low capex but short mine life

- Mt Mason is a hematite DSO project with JORC Resource of 6.2Mt @ 60.1%. A scoping study was released in 2011 and the project was subject to feasibility prior to being put on care and maintenance. We surmise Mt Mason would be attractive for a miner seeking incremental tonnes from a project offering relatively low capex, high IRR, and a short lead time to get into production. We note Mt Mason is only approximately 54km from Mineral Resources Ltd's (MIN) Koolyanobbing mine, which rails ore to Esperance port. At first glance we view MIN as a logical acquirer given it has nearby exiting infrastructure and equipment that could reduce capex, generate synergies, and make it even more compelling.

**Mount Ida – Large scale, high capex, magnetite project**

- Mt Ida is the polar opposite of Mt Mason – magnetite, long mine life, large resource, and high capex. The project has a JORC Resource of 1,846Mt @ 36.7% Fe. As per Mt Mason, a scoping study was released in 2011 and the project put on care and maintenance during feasibility studies. We expect Mt Ida would suit a party seeking long term offtake or production, and strategically committed to iron ore.

Our valuation of iron ore assets is \$47M based on comparative JORC multiples

- We currently value JMS's iron ore assets at \$47M, or \$0.02/share, based on an EV per JORC Resource of contained Fe tonnes multiple. We have used a multiple of \$0.07, which is derived from the average of select ASX listed pure iron ore explorers only.
- Key outcomes of the historical scoping studies are shown in Figure 3. While obviously these would require significant updates given the time elapsed, change in market conditions, technology advances, and potential for optimization such as cost and capex reductions, they at least provide an approximate ball park to economics.
- We note our valuation is only 24% of the combined Scoping Study NPVs of both projects.

Figure 3: 2011 Scoping Study Results on Central Yilgarn Iron Ore Projects

Parameter	Unit	Mt Mason	Mt Ida
IRR	%	76%	20%
Ore mine	Mtpa	1.5	25
Production	Mtpa	1.5	10
NPV ₈	A\$M	89	105
Capex	A\$M	71	1,583
Opex	US\$/t fob	39	46
Price	US\$/t	81	110
LOM	years	4	20
Grade	%	60%	68%
Payback	years	1	n/a

Source: Company; Foster stockbroking estimates. Mt Mason parameters derived from mean of Scoping Study Options 1 and 2.



EARNINGS FORECASTS REVISIONS

- We have made modest changes to our earnings forecasts for JMS post the 4Q report, with adjusted NPAT for FY19e down 1% to \$190M, FY20e down 2% to \$125M, and FY21e down 2% to \$103M. The key drivers of earnings changes is slightly higher costs.

Figure 4: JMS Earnings Forecasts A\$M

	FY19e			FY20e			FY21e		
	new	old	chg	new	old	chg	new	old	chg
Tshipi attrib.	510	508	0%	401	401	0%	367	367	0%
Marketing	13	13	2%	12	12	0%	11	11	0%
Sales adj.	524	521	1%	413	413	0%	378	378	0%
Other	1	1	0%	1	1	0%	1	1	0%
Total revenue adj.	525	522	0%	414	414	0%	379	379	0%
Tshipi attrib.	233	229	2%	225	222	1%	223	220	1%
Marketing	1	1	0%	1	1	0%	1	1	0%
Corporate	7	7	-1%	7	7	-1%	7	7	-1%
Cash costs adj.	242	237	2%	233	230	1%	231	228	1%
Tshipi attrib.	276	278	-1%	176	179	-2%	144	147	-2%
Marketing	12	12	-2%	11	11	-4%	10	10	-4%
Corporate	-6	-7	-14%	-6	-7	-14%	-7	-7	-1%
EBITDA adj.	283	285	-1%	180	183	-2%	147	151	-2%
D&A adj.	13	13	0%	4	4	0%	4	4	0%
EBIT adj.	268	270	-1%	177	180	-2%	144	147	-2%
Net interest	-4	-2	99%	-2	-3	-31%	-3	-3	0%
PBT adj.	272	256	6%	179	182	-2%	147	150	-2%
Tax adj.	82	72	13%	54	51	5%	44	45	-2%
Tshipi attrib.	191	179	7%	124	127	-2%	103	105	-2%
Marketing	10	9	7%	8	8	0%	7	7	0%
Corporate	-10	-10	4%	-7	-8	-14%	-7	-7	-2%
NPAT adj	190	192	-1%	125	128	-2%	103	105	-2%
Non-recur. items	-2	34	nm	0	0	0%	0	0	0%
NPAT reported	189	192	-2%	125	128	-2%	103	105	-2%

*Tshipi attrib. sales and costs shown on CIF basis.

^Non-Recurring Items includes foreign exchange gains & losses, impairments, and reversal of tax deferrals.

Adj = underlying estimate.

Source: Foster Stockbroking estimates.

**VALUATION****Share valuation decreases to \$0.61 from \$0.63**

- Our share valuation of JMS has slightly reduced to \$0.61 from \$0.63, post our earnings revisions. We employ a DCF model using WACC of 10%.

Figure 5: JMS Valuation

	A\$M	A\$/share
Tshipi (49.9%)	1,029	\$0.53
Marketing	73	\$0.04
Iron Ore	47	\$0.02
Corporate	-47	-\$0.02
Net cash - Tshipi attributable	27	\$0.01
Net cash - JMS consolidated	73	\$0.04
Equity	1,202	\$0.61
Shares M	1,959	

Source: Foster Stockbroking estimates.

Discount to peers has contracted but is still marked

- We have revisited our peer multiple comparison with other Mn exposed miners in Figure 6 on our one-year forward (February end FY20e) earnings estimates. Previously in February 2019 JMS traded at 56% and 43% discount on PE and EBITDA multiples on FY20e. These have now contracted respectively to 36% and 13%, with JMS trading at 5.3x and 3.1x. We believe the declaration of 2H dividend and a better 4Q performance have been contributors. We still expect the discount to be eliminated as the company further demonstrates performance.

Figure 6: JMS Peer Multiple Comparison

Company	Currency	Mkt cap M	Net cash (debt) M	NPAT M	EBITDA M	PE x	EV/ EBITDA x
Anglo American	US\$	33,499	-2,404	3,604	9,522	9.3	3.8
Assore	Rand	50,342	10,244	4,706	na	10.7	na
Eramet	Euro	1,297	-545	201	829	6.3	2.2
Minera Autlan	USD	198	-112	33	98	6.0	3.2
MOIL	INR	40,458	21,624	4,869	6,636	8.3	2.8
S32	A\$	18,874	916	1,661	3,291	11.4	5.5
African Rainbow Minerals	Rand	37,198	995	5,250	na	7.1	na
Vale	US\$	66,954	-9,211	9,343	18,022	7.2	4.2
Average peers						8.3	3.6
JMS	A\$	676	100	125	180	5.3	3.1
JMS discount to peer ave.						36%	13%

Source: Foster Stockbroking estimates; Bloomberg consensus.

All earnings adjusted to FY20e y/end February

RECOMMENDATION – BUY, 12-MONTH SHARE PRICE TARGET \$0.61 (PRIOR \$0.63)

- We maintain our Buy recommendation on JMS, slightly reducing our 12-month share price target to \$0.61 from \$0.63, based on 1.0x P/NPV revised DCF valuation.
- We expect catalysts for the share price to be positive mine performance, corporate activity, JMS dividend, costs reductions, mining of boundary pillar, and profit reports.



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