

29 Apr 2020

JUPITER MINES LTD (JMS)

DPS seems conservative, but prudent

Jupiter Mines Ltd (JMS) declared a 0.75cps (unfranked) final DPS. This is lower than we had assumed (1.5cps), but that expectation was formalised prior to covid-19 disruptions and was on the assumption that the cash distribution would be increased on the figure announced on 17 March. Pro-forma net cash at 28 February was A\$84m, but the final dividend equates to only A\$14.5m, and hence it appears to be a conservative distribution. Historically, distributions have been increased subsequent to initial guidance (hence our assumption that the DPS could still be 1.5cps), but the additional risks of Covid-19 and the South African lockdown have led to conservatism, it appears.

May quarter update

The Tshipi operation has been impacted by lockdowns in South Africa. Shipments in March were only 0.148mt (versus an average month of +0.25mt). Presumably April will be worse. We assume May Qtr production of 0.3Mt. We note that the shortage of manganese has led to a dramatic increase in prices to US\$6.31 dmtu 37% fob. Tshipi is allowed to move back to full operations on 1 May, and so increased supply could reduce spot prices. In our spot valuation we assume the price is unsustainable and instead use last week's price of US\$4.60/dmtu, which is still very robust level and above our long run estimates.

Retain Buy recommendation

Our base valuation is 42cps. Our spot (US\$4.60/dmtu) valuation is 100cps. Our unsustainable spot valuation (US\$6.31/dmtu) is A\$1.60. We have a 49cps twelve month target + 1.75cps DPS (0.75cps + 1cps).

Fig. 1: Hartleys earnings changes

Tshipi (49.9%)	Unit	28 Feb 19 actual	29 Feb 20			28 Feb 21		
			Old	New	% chg	Old	New	% chg
Production (100%)	Mtpa	3.4	3.2	3.4	6.0%	3.0	2.5	-15.9%
Received Price	US\$/dmtu	5.7	4.4	4.1	-6.3%	4.4	4.4	-1.5%
AUD	US\$/A\$	0.72	0.67	0.67	0.0%	0.66	0.66	0.0%
ZAR	Rand/US\$	14.2	14.6	14.6	0.0%	14.6	14.6	0.0%
Tshipi Revenue (49.9%)	A\$m	497.9	379.0	376.4	-0.7%	366.0	303.2	-17.1%
	ZARm	5079.4	3728.7	3703.1	-0.7%	3540.2	2933.5	-17.1%
Tshipi Cash Costs (49.9%)	A\$m	-236.4	-214.8	-241.2	12.3%	-215.8	-180.2	-16.5%
	ZARm	-2411.8	-2113.3	-2372.9	12.3%	-2087.8	-1743.0	-16.5%
	ZAR/t	-1412.0	-1315.9	-1394.5	6.0%	-1393.3	-1383.2	-0.7%
Tshipi EBITDA (49.9%)	A\$m	261.5	164.2	135.2	-17.7%	150.1	123.1	-18.0%
- margin		52.5%	43%	36%	-17.1%	41%	41%	-1.1%
Tshipi, 100%, EBITDA	A\$m	522.9	329.1	271.0	-17.7%	300.9	246.6	-18.0%
Tshipi, 100%, Cash dist	A\$m	316.1	234.2	201.9	-13.8%	178.4	137.2	-23.1%
% of EBITDA		60%	71%	75%	4.7%	59%	56%	-6.2%
Tshipi, 100%, Cash dist	ZARm	3,224	2,305	1,987	-13.8%	1,726	1,327	-23.1%
Tshipi, 100%, EBITDA	ZARm	5345.9	3237.2	2665.7	-17.7%	2910.7	2385.8	-18.0%
Tshipi, 100%, EBITDA	US\$	376.9	221.5	182.4	-17.7%	199.3	163.4	-18.0%
Tshipi NPAT (49.9%)	A\$m	189.5	113.2	98.8	-12.7%	103.1	109.2	5.9%
payout		83%	103%	102%	-1.2%	87%	63%	-27.4%
DPS		0.075	0.055	0.0475	-13.6%	0.040	0.030	-25.0%

Source: Hartleys Estimates

Share Price	\$0.270
Valuation	\$0.42
12mth price target	\$0.49

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\$528.9m

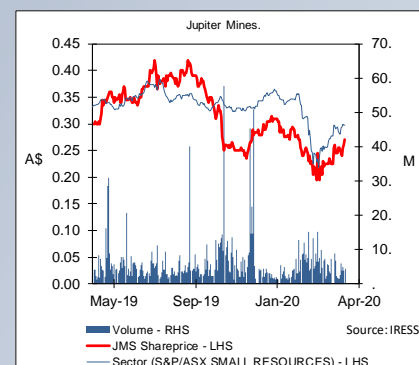
- fully diluted A\$528.9m

Cash (28 Feb 20p) A\$84.0m

Debt (28 Feb 20p) A\$0.0m

EV A\$444.9m

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



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Jupiter Mines Ltd JMS						29 April 2020					
Key Market Information						Buy					
Share price						Directors					
Issued Capital						Company Information					
Options, performance rights and partly paid shares ITM						Level 10, 16 St Georges Terrace					
Options, performance rights and partly paid shares						Perth WA, 6000, Australia					
Issued Capital (fully diluted inc. all options)						Tel: +61 8 9346 5500					
Issued Capital (fully diluted inc. all options and new capital)						Fax: +61 8 9481 5933					
Net Cash						Web: www.jupitermines.com					
Twelve month price target						Top Shareholders					
Valuation						%					
Tshipi (49.9%)	Unit	28 Feb 19a	29 Feb 20a	28 Feb 21f	28 Feb 22f	AMCI				17.2%	
Tshipi Revenue (49.9%)	A\$m, CFR	497.9	376.4	303.2	343.1	Stichting Pensioenfond				12.9%	
	ZARm	5079.4	3703.1	2933.5	3507.6	Posco				6.9%	
Tshipi Cash Costs (49.9%)	A\$m CFR	-236.4	-241.2	-180.2	-218.9	Reserves & Resources					
	ZARm	-2411.8	-2372.9	-1743.0	-2237.4	Mt	% Mn	Attributable to JMS			
Tshipi EBITDA (49.9%)	A\$m	261.5	135.2	123.1	124.3	Measured	92	34.2	JMS Atrib: 46Mt		
- margin		53%	36%	41%	36%	Indicated	112	33.7	JMS Atrib: 56Mt		
Tshipi, 100%, EBITDA	A\$m	524.0	271.0	246.6	249.0	Inferred	227	32.5	JMS Atrib: 113Mt		
Tshipi, 100%, Cash dist	A\$m	316.1	201.9	137.2	138.8	TOTAL Resources	432	33.2	JMS Atrib: 215Mt		
% of EBITDA		60%	75%	56%	56%	Reserve					
Tshipi, 100%, EBITDA	ZARm	5345.9	2665.7	2385.8	2545.4	94	36.5	JMS Atrib: 47Mt			
Tshipi, 100%, EBITDA	US\$	376.9	182.4	163.4	174.3	Production Summary					
Tshipi, 100%, EBITDA - reported	A\$m	585.3	314.9	284.9	292.3	Unit	28 Feb 19a	29 Feb 20a	28 Feb 21f	28 Feb 22f	
Tshipi NPAT (49.9%)	A\$m	189.5	98.8	109.2	110.0	Mill Throughput	Mt	3.8	3.7	2.8	3.50
payout		83%	102%	63%	63%	Saleable Product	Mt	3.4	3.4	2.5	3.19
						- grade Mn	Mt	36.5%	36.5%	36.5%	36.5%
						Saleable Product (attrib to JMS)	Mt	1.7	1.7	1.3	1.6
						Mass recovery		90.3%	91.0%	91.0%	91.0%
						Mine Life	%	32.58	30.58	29.58	28.58
						Assumed Mine Inventory (end)	Mt	152.9	145.4	142.5	139.1
						Costs					
						Unit	28 Feb 19a	29 Feb 20a	28 Feb 21f	28 Feb 22f	
						Cost per milled tonne	AS/t	108.1	104.0	116.3	112.9
						EBITDA / tonne milled ore	AS/t	138.0	72.2	88.7	71.0
							US\$/t	99.3	48.6	58.8	49.7
						Total cost / tonne product cfr	AS/t	138	142	143	138
							ZAR/t	1,412	1,394	1,383	1,408
							ZAR\$/dmu	39	38	38	38.57
							US\$/t	100	95	95	96
							US\$/dmu	2.7	2.6	2.6	2.6
						Price Assumptions					
						Unit	28 Feb 19a	29 Feb 20a	28 Feb 21f	28 Feb 22f	
						AUDUSD	AS/US\$	0.72	0.67	0.66	0.70
						USDZAR		14.18	14.61	14.60	14.60
						AUDZAR		10.20	9.84	9.67	10.22
						Manganese: 44% benchmark cfr	US\$/dmu	7.31	5.08	5.09	4.74
						Manganese: 44% benchmark cfr	US\$/t	322	223	224	209
						Iron Ore 62% benchmark cfr	US\$/t	73.6	97.9	79.9	71.4
						Tshipi received price cfr	US\$/t	209.7	148.9	159.4	151.1
							US\$/dmu	5.7	4.1	4.4	4.1
							ZAR\$/dmu	81.5	59.6	63.8	60.5
							AS/dmu	8.0	6.1	6.6	5.9
						Valuation multiples @ 0.27					
							28 Feb 19a	29 Feb 20a	28 Feb 21a	28 Feb 22a	
						EV/EBITDA	x	2.0	3.9	4.3	4.3
						Div Yield	%	27.8%	17.6%	11.1%	11.1%
						Hedging					
						Unit	28 Feb 19a	29 Feb 20a	28 Feb 21f	28 Feb 22f	
						none					
						Sensitivity Analysis					
						Valuation	FY21 pro-forma EBITDA				
						Base Case	0.42	123.1			
						Spot Prices	1.00 (135.9%) 195.7 (59.0%)				
						Spot USD/AUD 0.65, USD/ZAR 18.6, 44% Mn CFR \$5.8/dmu, 37% Mn fob Sth Africa \$4.6/dmu					
						AUDUSD +/-10%	0.32 / 0.55 (-24.3% / 29.6%)	99.9 / 151.4 (-18.8% / 23.0%)			
						Manganese +/-10%	0.55 / 0.29 (31.3% / -31.3%)	152.5 / 93.7 (23.9% / -23.9%)			
						Production +/-10%	0.53 / 0.31 (26.4% / -26.4%)	148.3 / 97.8 (20.5% / -20.5%)			
						Unpaid Capital					
						Year Expires	\$m	Avg price	% ord		
						28-Feb-21	0.0	0.00	0%		
						28-Feb-22	0.0	0.00	0%		
						28-Feb-23	0.0	0.00	0%		
						29-Feb-24	0.0	0.00	0%		
						28-Feb-25	0.0	0.00	0%		
						TOTAL	0.0	nm	0%		
						Valuation					
							AS/shr				
						49.9% Tshipi (pre-tax NAV at disc. rate of 10%)	0.60				
						Tshipi Tax (NPV future liability)	-0.21				
						Marketing	0.02				
						Other Assets/Exploration	0.00				
						Forwards	0.00				
						Corporate Overheads	-0.02				
						Net Cash (Debt)	-0.06				
						Withholding Tax	-0.03				
						Options & Other Equity	0.00				
						Total	0.42				
Analyst: Trent Barnett											
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"tbc capital" could be equity or debt. Our valuation is risk-adjusted for how this may be obtained.											
Sources: IRESS, Company Information, Hartleys Research											

Fig. 2: Earnings Changes

Tshipi (49.9%)	Unit	28 Feb 19 actual	29 Feb 20			28 Feb 21			28 Feb 22		
			Old	New	% chg	Old	New	% chg	Old	New	% chg
Production (100%)	Mtpa	3.4	3.2	3.4	6.0%	3.0	2.5	-15.9%	3.2	3.2	0.0%
Received Price	US\$/dmu	5.7	4.4	4.1	-6.3%	4.4	4.4	-1.5%	4.1	4.1	0.0%
AUD	US\$/A\$	0.72	0.67	0.67	0.0%	0.66	0.66	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%
Tshipi Revenue (49.9%)	A\$m	497.9	379.0	376.4	-0.7%	366.0	303.2	-17.1%	343.1	343.1	0.0%
	ZARm	5079.4	3728.7	3703.1	-0.7%	3540.2	2933.5	-17.1%	3507.6	3507.6	0.0%
Tshipi Cash Costs (49.9%)	A\$m	-236.4	-214.8	-241.2	12.3%	-215.8	-180.2	-16.5%	-218.9	-218.9	0.0%
	ZARm	-2411.8	-2113.3	-2372.9	12.3%	-2087.8	-1743.0	-16.5%	-2237.4	-2237.4	0.0%
	ZAR/t	-1412.0	-1315.9	-1394.5	6.0%	-1393.3	-1383.2	-0.7%	-1407.8	-1407.8	0.0%
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- margin		52.5%	43%	36%	-17.1%	41%	41%	-1.1%	36%	36%	0.0%
Tshipi, 100%, EBITDA	A\$m	522.9	329.1	271.0	-17.7%	300.9	246.6	-18.0%	249.0	249.0	0.0%
Tshipi, 100%, Cash dist	A\$m	316.1	234.2	201.9	-13.8%	178.4	137.2	-23.1%	133.8	138.8	3.7%
% of EBITDA		60%	71%	75%	4.7%	59%	56%	-6.2%	54%	56%	3.7%
Tshipi, 100%, Cash dist	ZARm	3,224	2,305	1,987	-13.8%	1,726	1,327	-23.1%	1,368	1,419	3.7%
Tshipi, 100%, EBITDA	ZARm	5345.9	3237.2	2665.7	-17.7%	2910.7	2385.8	-18.0%	2545.4	2545.4	0.0%
Tshipi, 100%, EBITDA	US\$	376.9	221.5	182.4	-17.7%	199.3	163.4	-18.0%	174.3	174.3	0.0%
Tshipi NPAT (49.9%)	A\$m	189.5	113.2	98.8	-12.7%	103.1	109.2	5.9%	84.4	110.0	30.3%
payout		83%	103%	102%	-1.2%	87%	63%	-27.4%	79%	63%	-20.4%
DPS		0.075	0.055	0.0475	-13.6%	0.040	0.030	-25.0%	0.030	0.030	0.0%

Source: Hartleys Estimates

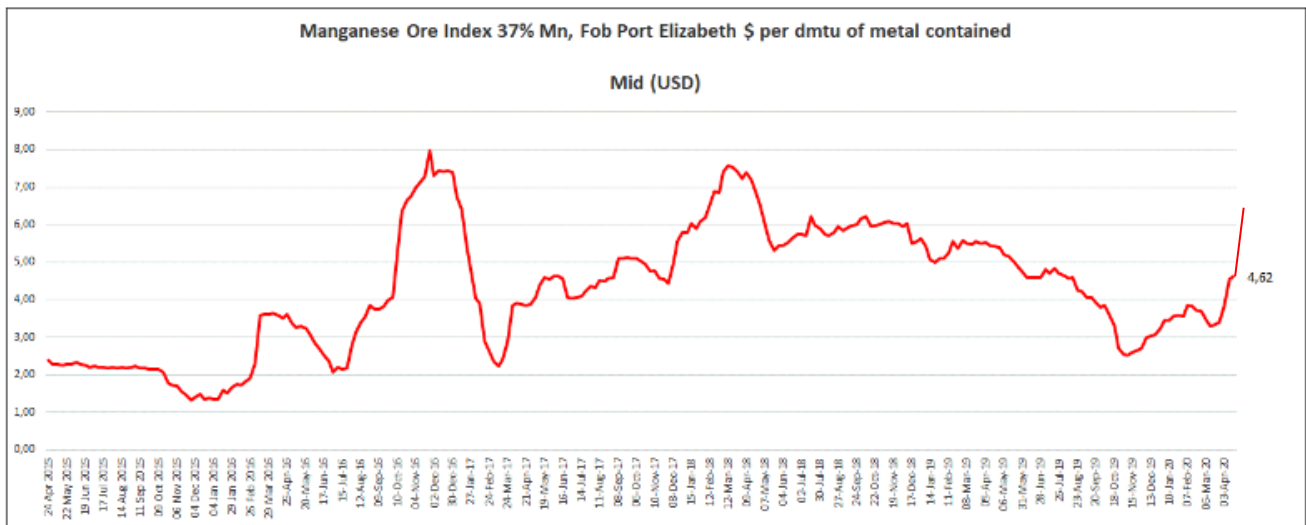
Fig. 3: Key assumptions and risks for valuation

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 fall from current prices	Moderate	Most significant	We assume manganese selling prices fall.
Project interest	Low	Modest	We assume JMS retains its 49.9% interest in Tshipi.
Conclusion	We believe our assumptions around manganese selling prices are the most important for our valuation.		

Source: Hartleys

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

Week commencing 27/04/2020 - US\$6.31 (last week US\$4.62)



Source: JMS

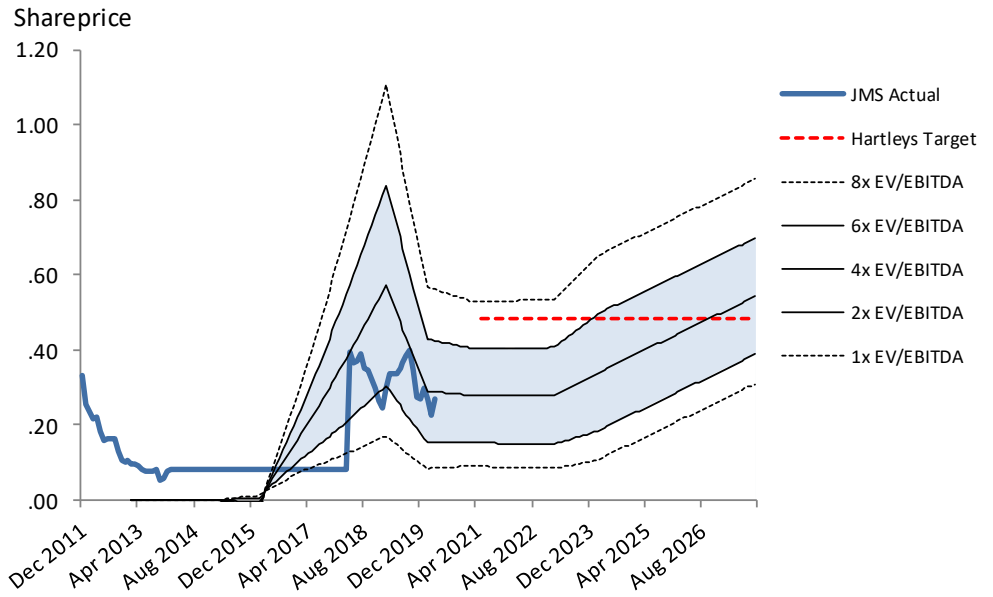
PRICE TARGET

We have a twelve-month price target of 49cps (from 46cps previous).

Price Target Methodology	Weighting	Spot	12 mth out
NPV base case valuation	80%	\$0.42	\$0.45
NPV spot valuation	1%	\$1.00	\$1.08
NPV no 4.5mtpa expansion (base case prices)	5%	\$0.37	\$0.39
NPV no 4.5mtpa expansion (spot case prices)	1%	\$0.87	\$0.94
4x EV/EBITDA	5%	\$0.56	\$0.55
10x EV/EBITDA	1%	\$1.31	\$1.32
Dividend yield 6.0% base case	5%	\$0.29	\$0.58
Dividend yield 6.0% spot prices	2%	\$0.92	\$0.92
Risk weighted composite			\$0.45
12 Months Price Target			\$0.49
Shareprice - Last		\$0.2700	
12 mth total return			86%

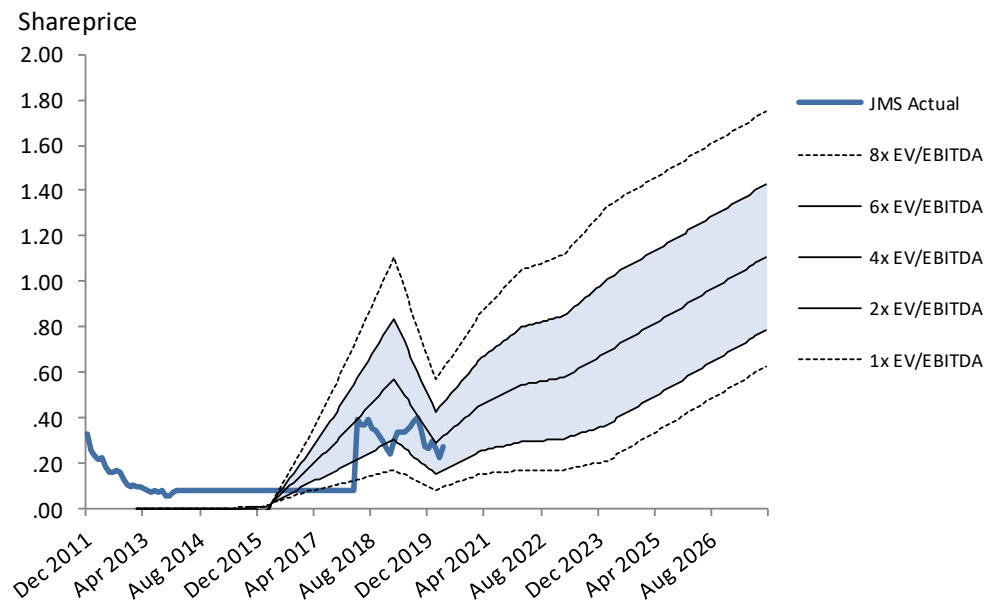
Source: Hartleys Research Estimates

Fig. 5: Using Hartleys base case commodity forecasts



Source: Hartleys Estimates, IRESS

Fig. 6: Using spot commodity prices



Source: Hartleys Estimates, IRESS

HARTLEYS CORPORATE DIRECTORY

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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.

Institutional Sales

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