



Jupiter Mines Ltd (JMS.ASX)

Restrictions impact volumes but Mn price easing pain

Event:

- FY20 Result review; PT and earnings changes.

Investment Highlights:

- Jupiter Mines Ltd (JMS) reported NPAT of \$95M, or adjusted \$98M, the latter 6% below our forecast of \$108M, mostly due to lower Mn prices in the 4QFY20.** Tshipi shipments of 3.4Mt exceeded target of 3.0Mt, albeit high grade was only 2.9Mt, the balance being low grade.
- The company ended FY20 with \$84M attributable cash, comprising \$29M consolidated and \$55M as a share of Tshipi's cash.** Debt remains nil. The strong balance sheets of both JMS and Tshipi e Ntle positions them favourably in the current COVID-19 environment.
- JMS declared a final dividend of 0.75cps vs our estimate of 1.6c, a payout of 61% on 2H profit.** We expect that the a) High interim payout of 112%, b) Uncertainty surrounding COVID-19 and c) Weak Mn prices in the late 2HFY20 instigated a degree of caution. Payout for the full year was 95%, still above the company's target of 70%.
- Lockdown restrictions to impact 1QFY21 production.** As part of RSA Government directives to curb COVID-19 propagation, Tshipi shutdown operations on 26th March; restarted at 50% rate on 14th April; and resumed full production on 1st May. We believe 1Q production will be 0.4Mt vs 0.8Mt previously, while our estimates for subsequent quarters are unchanged at 0.8Mt, prompting us to cut production to 2.9Mt for FY21e (prior 3.3Mt).
- We believe that Tshipi may be benefiting from current restrictions on underground Kalahari Mn mines, which are producing at only 50% capacity.** This may support Mn price in short-term - currently at US\$6.16/dmtu and well above both our and consensus estimates. Reduced underground output may free up more Transnet capacity which may advantage Tshipi in volumes and costs.
- We have reviewed our Mn price forecasts, and cut the 37% Mn CIF price by -6% to -8% over FY21e to FY23e, which we believe are in-line with consensus.** Our LT 37% China CIF price is US\$4.24/dmtu and RSA FOB price \$3.88/dmtu. However upside risk remains in the short-term while RSA supply remains restricted.

Earnings and Valuation:

- We have downgraded JMS adjusted NPAT -28% in FY21e to \$63M based on lower shipments, while earnings from FY22e onwards are cut on lower Mn prices and higher low grade product selling costs.**
- Our NPV₁₀ share valuation reduces to \$0.50 from \$0.60 based on earnings downgrades.** We include a 25% weighting on the expansion case.

Recommendation:

- We maintain our Buy recommendation with a revised 12-month price target of \$0.50 (prior \$0.60) based on our 1.0x Price/NPV.** Catalysts for the share price include higher Mn prices; cost reductions; increased shipments; results of expansion feasibility study; realisation of value for iron ore assets; and corporate activity.

Disclosures

The analyst owns 386,746 JMS shares.
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 10,426,100 JMS shares.
Cranport Pty Ltd owns 6,804,119 JMS shares.
Refer details end of report.

Recommendation		Buy			
Previous		Buy			
Risk		High			
Price Target		\$ 0.50			
Previous		\$0.60			
Share price (A\$)		\$ 0.280			
ASX code		JMS			
52 week low-high		0.19-0.43			
JMS Valuation (A\$/share)		\$ 0.50			
Methodology		risked NPV			
JMS Capital structure					
Shares on Issue (M)		1,959			
Market cap (A\$M)		549			
Net cash (debt) attributable (A\$M)		84			
EV (A\$M)		465			
Ave daily volume ('000)		5,658			
Earnings Y/e Feb A\$M		FY20a	FY21e	FY22e	FY23e
Sales adj*#		411	314	345	331
EBITDA adj.*		152	101	97	83
NPAT reported		95	63	62	59
NPAT adj*		98	63	62	59
EPS adj. \$*		0.050	0.032	0.032	0.030
PE x		3.0	5.5	6.3	7.6
EV/EBITDA x		1.7	3.0	3.4	4.0
DPS \$		0.048	0.026	0.026	0.025
Yield %		17%	9%	9%	9%

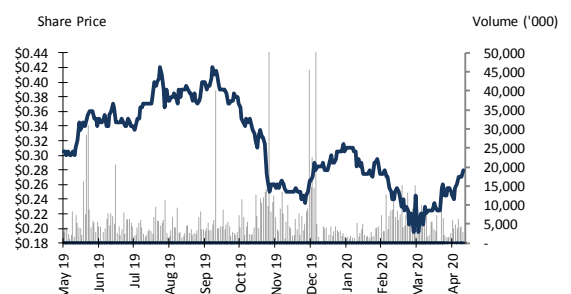
* Adj =underlying including attributable share of Tshipi

#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	2020a	2021e	2022e	2023e
Sales adj.*	411	314	345	331
Other revenue	1	1	1	1
Operating Costs adj.*	259	214	248	249
EBITDA adj.	152	101	97	83
D&A adj.	14	13	15	5
EBIT adj.	139	89	82	78
Net Interest exp / (income) adj.	-2	-2	-6	-6
Profit before tax adj	141	90	88	84
Tax exp / (benefit) adj	42	27	26	25
NPAT adj.	98	63	62	59
Non-recurring gain/(loss)	-3	0	0	0
NPAT reported	95	63	62	59

EPS diluted adj. (\$)	0.050	0.032	0.032	0.030
DPS (\$)	0.048	0.026	0.026	0.025

All figures shown include JMS attributable share of Tshipi.

*Includes realisation costs

Cashflow A\$M	2020e	2021e	2022e	2023e
EBITDA adj.	152	101	97	83
Equity accounting	-148	-99	-94	-80
Change in WC	-35	-19	-6	4
Tax paid	-1	-1	-1	-1
Net interest	1	0	0	0
Other	31	0	0	0
Operating Cashflow	0	-17	-3	6

PPE	0	0	0	0
Exploration	-1	-2	-2	-2
Dividends received	84	33	46	49
Investments	0	0	0	0
Investing Cashflow	83	38	44	47

Equity issue	0	0	0	0
Loan repayment	0	6	0	0
Debt repayments/proceeds	0	0	0	0
Share buyback	0	0	0	0
Dividends paid	-127	-36	-56	-49
Financing Cashflow	-127	-30	-56	-49

Net Cashflow	-45	-9	-15	3
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Balance Sheet A\$M	2020e	2021e	2022e	2023e
Cash	29	20	5	8
Receivables	40	65	71	68
PPE	0	0	0	0
Capitalised exploration	12	12	12	12
Investments	438	500	561	619
Other	1	1	1	1
Total Assets	520	597	649	708

Accounts payable	133	38	43	43
Provisions	0	0	20	21
Debt	0	0	0	0
Other	51	57	82	127
Total Liabilities	184	94	144	190

Reserves and capital	410	410	410	410
Retained earnings	16	43	49	58
Total Equity	426	453	459	469

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

Half year splits	1H FY20a	2H FY20a	1H FY20e	2H FY20e
Mn 37% RSA, FOB, US\$/dmu	4.94	3.39	4.09	3.94
Total Mn ore shipments Mt	1.7	1.7	1.3	1.7
Sales adj.*	231	169	134	171
EBITDA adj.	112	40	42	59
NPAT adj.	75	24	26	37

All figures shown include JMS attributable share of Tshipi.

*Includes realisation

Financial Metrics	2020a	2021e	2022e	2023e
EPS growth %	-48%	-36%	-2%	-4%
Gearing (ND/ND+E)	-7%	-5%	-1%	-2%
Interest Cover (EBIT/net int)	nm	nm	nm	m
Average ROE %	24%	14%	14%	13%
Average ROA %	25%	16%	13%	12%

Earnings multiples	2020a	2021e	2022e	2023e
P/E x	5.6	8.7	8.9	9.3
EV/EBITDA x	3.1	4.6	4.8	5.6
Dividend Yield %	17%	9%	9%	9%

Company Valuation	A\$M	A\$/share
Segment		
Tshipi (49.9%)	666	\$ 0.34
Expansion case (discounted by 75%)	155	\$ 0.08
Marketing	53	\$ 0.03
Iron Ore	47	\$ 0.02
Corporate	-29	-\$ 0.01
Net cash - Tshipi attributable	55	\$ 0.03
Net cash - JMS consolidated	29	\$ 0.01
Equity	976	\$ 0.50

Tshipi - Assumptions	2020e	2021e	2022e	2023e
Mn 44% China, CIF, US\$/dmu	5.63	4.79	4.70	4.67
Mn 37% RSA, FOB, US\$/dmu	4.16	4.02	3.92	3.89
Tshipi Mn realised, FOB, US\$/dmu	4.64	4.16	4.09	4.06
A\$:US\$	0.69	0.70	0.71	0.73
Rand:US\$	14.60	15.29	15.06	14.66

Mn ore production Mt	3.41	2.92	3.30	3.30
Mn ore shipments Mt	3.41	2.92	3.30	3.30
Cash costs US\$/dmu hi grade, FOB	2.05	2.03	2.13	2.22
Cash costs US\$/dmu total product, CIF	2.92	2.82	2.95	3.05

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	%
Stichting Pensioenfonds 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.



FY20e RESULT – TSHIPI WEATHERS LOWER Mn PRICES

- JMS reported FY20 NPAT of \$95M, or adjusted NPAT (ex-foreign exchange impact and tax adjustments) of \$98M which was 6% below our forecast of \$108M. The key reason was a weaker 4QFY20e from Tshipi - which we had not updated our prior forecast for – attributable to lower Mn prices. Mn 37% Port Elizabeth FOB prices averaged \$3.45/dmtu and China CIF \$3.58/dmtu in the 4Q - vs our prior forecasts of US\$3.61 and \$4.78.
- While the Mn price was not in the company’s control, Tshipi did keep costs relatively stable, including shipping more via rail to Luderitz, Namibia that otherwise would have been transported by more expensive trucking. FOB costs were US\$2.05/dmtu from US\$2.04 in the previous year and in-line with our estimate of US\$2.02.

Figure 1: JMS Profit & Loss \$M

Y/e February	FY19a	FY20a	FSBe FY20e	Diff vs FSBe	Diff vs pcp
Tshipi (100%) metrics					
Shipments Mt	3.51	3.41	3.35	2%	-3%
Mn RSA 37% FOB US\$/dmtu	6.01	4.16	4.20	-1%	-31%
Mn China CIF 37%, US\$/dmtu	6.43	4.90	5.20	-6%	-24%
A\$:US\$	0.74	0.69	0.70	-2%	-6%
ZAR:US\$	13.62	14.59	14.50	1%	7%
Costs fob US\$/dmtu , high grade	2.04	2.05	2.02	2%	-7%
JMS Profit & Loss \$M					
Tshipi attrib.	511	400	416	-4%	-22%
Marketing	13	10	11	-9%	-20%
Sales adj.*	524	411	427	-4%	-22%
Other	1	1	1	0%	0%
Total revenue adj.	525	411	428	-4%	-22%
Tshipi attrib.	236	252	260	-3%	7%
Marketing	1	3	3	-16%	128%
Corporate	6	4	3	45%	-33%
Cash costs adj.*	243	259	266	-3%	6%
Tshipi attrib.	275	148	156	-5%	-46%
Marketing	12	8	8	-6%	-36%
Corporate	-5	-3	-2	56%	-36%
EBITDA adj.	282	152	161	-6%	-46%
D&A adj.	13	14	14	-6%	3%
EBIT adj.	268	139	147	-6%	-48%
Net interest	-2	-2	-2	-11%	6%
PBT adj.	269	141	149	-6%	-48%
Tax adj.	81	42	45	-6%	-48%
Tshipi attrib.	189	98	103	-5%	-48%
Marketing	9	6	6	0%	-41%
Corporate	-10	-5	-4	14%	-51%
NPAT adj	188	98	104	-6%	-58%
Non-recurring items	-48	-4	-1	nm	nm
NPAT reported	142	95	104	-8%	-33%

Source: Company; Foster Stockbroking estimates. Numbers may not add due to rounding.

*Sales and costs inclusive of realisation.



- Tshipi shipments of 3.4Mt for FY20 well exceeded the company's sales target of 3.0Mt, although high grade shipments of 2.9Mt was slightly below our estimate of 3.0Mt. The balance was low grade.

Attributable cash \$84M end FY20

- JMS' attributable cash at end FY20 was \$83.9M (\$29.3M consolidated and Tshipi share \$54.6M), below our estimate of \$113.9M (\$60.7M consolidated, Tshipi share \$53.2M). The key difference was consolidated, with net negative timing differences in payables and receivables reflecting cash decrease during the quarter, as opposed to our expectation of net positive change in working capital.

Figure 2: JMS and Tshipi Cash Balance \$M

	FY20a	3QFY20a	FY20 FSBe	Diff vs FSBe
Operating cash flow (Tshipi 100%)	17	39	15	13%
JMS cash consolidated	29	43	61	-53%
Cash Tshipi 49.9%	55	49	53	4%
JMS attributable cash	84	92	114	-26%

Source: Company; Foster stockbroking estimates.

Final Dividend of \$0.0075

- JMS declared a final dividend of 0.75cps vs our expectation of 1.6cps. A weak 4Q Mn price, as well as the uncertainty and restrictions brought about by the proliferation of COVID-19 subsequent to the result were no doubt factors. The payout ratio was 61% for the final dividend over 2H NPAT, vs 112% payout of the interim, resulting in full year payout ratio of 95% on adjusted NPAT (vs 78% in FY19). Tshipi's payout ratio was 9102% for FY20 vs 83% in FY19.
- We estimate post payment of the Tshipi's 2H dividend (\$24M) and payment by JMS its final dividend (\$15M), JMS attributable cash will be of \$69M, all else being equal.

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COVID-19 RELATED LOCKDOWNS TO IMPACT FY21e

Downgrade to FY21e shipments – we now expect 2.9Mt vs 3.3Mt previously

- On 26 March most mines in South Africa shut down operations – including Tshipi – in response to Government measures adopted to combat the spread of the coronavirus. Tshipi, along with most other open pit mines, were allowed to restart production on 14 April at 50% of mine rate (1.5-1.7Mtpa). On 1 May, Tshipi along with other open pit mines was allowed to ramp up to 100% production.



- We estimate the loss of production resulting from the COVID-19 restrictions to be 0.4Mt – all incurred in the 1QFY21e. We now forecast 0.4Mt for the 1QFY21e, while our forecasts of 0.8Mt for subsequent quarters remains unchanged, resulting in 2.9Mt for the year (prior 3.3Mt). Risks to our forecast would be if a second wave of COVID-19 were to propagate, which could result in further and longer restrictions to production in the current and subsequent quarters.
- Our production forecast for FY22e onwards remain unchanged at 3.3Mtpa.

Figure 3: Tshipi shipments (Mt, 100%)

FY20a			FY21e			FY22e		
new	old	chng	new	old	chng	new	old	chgn
3.4	3.2	7%	2.9	3.3	-12%	3.3	3.3	0%

Source: Company; Foster stockbroking estimates

TSHIPI MAY BENEFIT VS COMPETITORS

Underground mines operating only at 50% keeps Mn supply restricted

- While Tshipi's output has been inhibited by COVID-19 restriction, underground operations in the Kalahari have been more so. This is because of the latter possessing a greater transmission of the virus due to the nature of underground mining. So during the period where Tshipi was allowed to restart at 50% production (14 Apr to 30 Apr) underground mines were still off-line. Since Tshipi was allowed to ramp up to 100% output, underground mines have been limited to 50%.
- We believe that since 14th April Tshipi has been better placed than peer underground Kalahari Mn mines. This should have a threefold positive impact for Tshipi, namely:
 1. **Exploiting a higher Mn price.** Supply restriction from the underground Mn mines should continue supporting the Mn price, or at least not see it pull back to pre-COVID-19 levels. This allows Tshipi to exploit attractive pricing for its volumes for as long as the restriction imbalance in open-cut vs underground continues remains.
 2. **Opportunity to shift more volume to lower cost rail.** Transport and logistics approximately accounts for 50% of Tshipi's fob costs. The partial operation of underground mines may result in their Transnet rail allocations being unfulfilled, which Tshipi has demonstrated in the past it can quickly fill. This ability to move higher cost tonnage from trucking to rail can lower fob costs.
 3. **Increase volume on rail.** Rail is the chief bottleneck for Tshipi mine's shipments. Spare capacity on Transnet free may see the mine exceed 3Mt.

Minimal cost impact during shutdown

- JMS estimated costs of the initial shutdown (nil production from 26 March to 16 April of ZAR25M, or only \$3M. Given that 75% of costs are logistics, marketing, and realisation, and both mining and plant contracted, Tshipi's fixed costs and care and maintenance expenses were quite low.

**COMMODITY PRICE FORECASTS****We downgrade CIF prices**

- We have downgraded 44% and 37% CIF Mn price forecasts, maintaining these in line with consensus. We cut the latter by -6% to -8% during FY21e-FY23e, and our long term by -6% to US\$4.24/dmtu. However we have increased our forecast 37% FOB price over the same period (LT up 10% to US\$3.88/dmtu) due to lower realisation charges. We also reduce forecast Rand vs US\$ given the persistent weakness in the currency.

Upside risk to price in short-term

- Current RSA Mn 37% RSA FOB price is US\$6.16/dmtu is trading well above our and consensus estimates, we believe mostly from the restricted underground supply from RSA. While we expect the price to decline as this capacity eventually returns, it does provide upside risk to four forecasts in the short-term.

Figure 4: Commodity Price Forecasts (nominal)

Commodity		FY2020a	FY2021e	FY2022e	FY2023e	LT
Mn 44% CIF, China US\$/dmtu	new	5.63	4.79	4.70	4.67	4.66
	<i>old</i>	5.89	5.25	4.97	4.85	4.93
	<i>chn</i>	-4%	-9%	-5%	-4%	-5%
Mn 37% CIF, China US\$/dmtu	new	4.90	4.37	4.28	4.25	4.24
	<i>old</i>	5.28	4.74	4.55	4.43	4.51
	<i>chn</i>	-7%	-8%	-6%	-4%	-6%
Mn 37% FOB, RSA US\$/dmtu	new	4.16	4.02	3.92	3.89	3.88
	<i>old</i>	4.33	3.76	3.57	3.45	3.53
	<i>chn</i>	-4%	7%	10%	13%	10%
ZAR:US\$	new	14.60	15.29	15.06	14.66	14.52
	<i>old</i>	14.33	14.44	14.36	14.22	14.22
	<i>chn</i>	2%	6%	5%	3%	2%
A\$:US\$	new	0.69	0.70	0.71	0.73	0.73
	<i>old</i>	0.70	0.71	0.73	0.73	0.73
	<i>chn</i>	-1%	-1%	-3%	0%	0%

Source: Foster Stockbroking estimates.



EARNINGS FORECASTS REVISIONS

Downgrades to earnings on lower FY21e production and Mn prices

- We have downgraded our forecast FY21e JMS NPAT by 28% to \$63M, based mostly on lower forecast shipments of 2.9Mt from Tshipi (vs 3.3Mt previously) due to the COVID-19 lockdown impact during 1QFY21e. Our NPAT estimates from FY22e and beyond have been downgraded on lower Mn CIF prices and increased costs for low grade product.

Figure 4: JMS Earnings Forecasts A\$M

Y/e February	FY20e			FY21e			FY22e		
	new	old	chng	new	old	chng	new	old	chng
Commodity assump'ns:									
Mn 37% RSA, fob US\$/dm tu	4.16	4.33	-4%	4.02	3.76	7%	3.92	3.57	10%
Mn 37% China, cif US\$/dm tu	4.90	5.28	-7%	4.37	4.74	-8%	4.28	4.55	-6%
Tshipi realised, cif US\$/dm tu	4.64	4.97	-7%	4.16	4.53	-6%	4.09	4.35	-8%
A\$:US\$	0.69	0.70	-1%	0.70	0.70	0%	0.71	0.71	0%
ZAR:US\$	14.60	14.33	2%	15.29	14.44	6%	15.06	14.36	5%
Shipments, Mt									
	3.4	3.2	7%	2.9	3.3	-12%	3.3	3.3	0%
FOB costs, US\$/dm tu, HG^	2.05	2.02	0%	2.03	2.02	1%	2.13	2.05	4%
CIF costs, US\$/dm tu, total#	2.92	3.11	-6%	2.82	2.89	-3%	2.95	2.94	0%
JMS Profit & Loss \$M:									
Tshipi attrib.	400	405	-1%	306	376	-19%	335	356	-6%
Marketing	10	11	-10%	9	11	-19%	10	11	-6%
Sales adj.*	411	416	-1%	315	387	-19%	345	366	-6%
Other	1	1	0%	1	1	0%	1	1	0%
Total revenue adj.	411	417	-1%	315	388	-19%	345	367	-6%
Tshipi attrib.	252	250	1%	207	243	-15%	241	243	-1%
Marketing	3	5	-39%	3	5	-39%	3	5	-39%
Corporate	4	3	45%	4	3	50%	4	3	50%
Cash costs adj.*	259	257	1%	214	250	-14%	248	250	-1%
Tshipi attrib.	148	155	-4%	99	134	-26%	94	113	-17%
Marketing	8	7	9%	6	7	-5%	7	6	19%
Corporate	-3	-2	56%	-4	-2	88%	-4	-2	88%
EBITDA adj.	152	159	-4%	101	138	-27%	97	116	-16%
D&A adj.	14	14	0%	13	14	-10%	15	16	-5%
EBIT adj.	139	145	-4%	88	124	-29%	82	101	-18%
Net interest	-2	-2	-3%	-2	-2	-4%	-6	-2	182%
PBT adj.	141	147	-4%	90	125	-28%	88	103	-15%
Tax adj.	42	44	-4%	27	38	-28%	26	31	-15%
Tshipi attrib	98	103	-4%	63	88	-29%	61	72	-16%
Marketing	6	5	0%	5	4	0%	5	4	0%
Corporate	-5	-4	13%	-4	-4	7%	-4	-4	9%
NPAT adj	98	103	-4%	63	88	-28%	62	72	-14%
Non-recurring items	-4	-1	0%	0	0	0%	0	0	0%
NPAT reported	95	102	-7%	63	88	-28%	62	72	-14%

*Tshipi sales and costs include realisation.

^HG= high grade product. #Total=all product incl. low grade.

Non-recurring Items includes foreign exchange gains & losses. Adj = underlying estimate.

Source: Foster Stockbroking estimates.

**VALUATION****Share valuation decreases to \$0.50 from \$0.60**

- Our NPV₁₀ share valuation of JMS has reduced to \$0.50 from \$0.60, due to downgrade in our forecast earnings.

Figure 5: JMS Valuation

Segment	A\$M	A\$/share
Tshipi (49.9%)	666	\$0.34
Expansion case (discounted by 75%)	155	\$0.08
Marketing	53	\$0.03
Iron Ore	47	\$0.02
Corporate	-29	-\$0.01
Net cash - Tshipi attributable	55	\$0.03
Net cash - JMS consolidated	29	\$0.01
Equity	976	\$0.50
Shares M	1,959	

Source: Foster Stockbroking estimates. NPV₁₀ employed for all segments except iron ore (multiple valuation).

RECOMMENDATION – MAINTAIN BUY, 12-MONTH TARGET \$0.50 (PRIOR \$0.60)

- We maintain our Buy recommendation on JMS, reducing our 12-month share price target to \$0.50 from \$0.60, based on 1.0x P/NPV revised DCF valuation.
- We believe the company is in a solid position despite the impedance suffered from the COVID-19 restrictions. The solid cash position and nil debt offers a robust buffer to weather nay potential further restrictions if a second wave of COVID-19 were to eventuate.
- We expect catalysts for the share price to be higher Mn prices, positive mine performance, corporate activity, costs reductions, and result of expansion feasibility study.



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