



Jupiter Mines Ltd (JMS.ASX)

Record lower costs and higher sales make a better quarter

Event:

- 3QFY21 report; Earnings, valuation, & PT change.

Investment Highlights:

- **Tshipi profit beats our forecast on record higher shipments, lower costs.** JMS released its 3Q report which show Tshipi achieving NPAT of A\$36M, comfortably beating our estimate of A\$27M. Two key drivers were higher shipments (1.15Mt vs our forecast of 0.83Mt), and lower costs of US\$1.88/dmtu vs FSBe \$2.06/dmtu. The shipments and costs were notable in both being quarterly records for Tshipi since JMS' IPO. Low-grade ore was shipped in addition to high-grade, due to still favourable Mn price conditions.
- **Lower costs driven by higher volumes, improved logistics.** Tshipi's low costs were due to 1) Higher shipments engendering lower unit costs; 2) Lower royalties from a weaker Mn price; and 3) Improved logistics. The last entailed a return to almost pre-Covid levels of rail allocation by Transnet, as well as record volumes through Luderitz which lies outside MECA. Volumes are 60kt per month at Luderitz, equivalent to 0.7Mtpa. JMS is also trialling additional shipments through the Coega over December-February, which can accommodate larger ships, potentially driving unit costs lower.
- **Attributable cash of \$89M slightly above our A\$85M.** Cash comprised A\$28M consolidated and A\$61M share of Tshipi.
- **Iron ore spin-out still targeted for 1QCY21.** JMS reiterated its aim to spin-out its iron assets by end 1QCY21, with the NewCo to prioritise efforts to fast-track production from Mount Mason DSO, logical given its lower capex and shorter lead time vs Mount Ida magnetite.

Earnings and Valuation:

- **We upgrade our FY21e and FY22e NPAT by 9% to \$73M and \$63M, on the back of higher shipments in FY21e and lower costs in both years.** We now forecast sales of 3.2Mt for FY21e, just above JMS guidance of 3.1Mt.
- **Our NPV₁₀ \$0.56 share valuation has increased off the back of lower costs from \$0.53 previously.**

Recommendation:

- **We maintain our Buy recommendation and increase our 12-month price target of \$0.56 (prior \$0.53) based on our 1.0x Price/NPV.**
- **Our PT and NPV is underpinned** by JMS' exposure to Tshipi's long-life Reserves, lowest quartile cost cash position, potential for low-cost expansion, attractive dividend yield (9% in FY22e) reflecting Tshipi's underlying cash flows, and absence of debt on both Tshipi and JMS balance sheets.
- **Catalysts for the share price include** higher Mn prices; cost reductions; increased shipments; results of expansion feasibility study; demerger of iron ore assets; and corporate activity.

Disclosures

The analyst owns 476,276 JMS shares.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 8,809,561 JMS shares.

Cranport Pty Ltd owns 5,604,461 JMS shares.

Refer details end of report.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$ 0.56			
Previous	\$0.53			
Share price (A\$)	\$ 0.285			
ASX code	JMS			
52 week low-high	0.19-0.32			
JMS Valuation (A\$/share)	\$ 0.56			
Methodology	NPV			
JMS Capital structure				
Shares on Issue (M)	1,959			
Market cap (A\$M)	558			
Net cash (debt) attributable (A\$M)	89			
EV (A\$M)	469			
Ave daily volume ('000)	4,964			
Earnings Y/e Feb A\$M	FY20a	FY21e	FY22e	FY23e
Sales adj*#	411	315	330	335
EBITDA adj.*	145	106	99	92
NPAT reported	95	67	63	65
NPAT adj*	98	73	63	65
EPS adj. c*	5.0	3.7	3.2	3.3
PE x	5.5	7.4	8.5	8.3
EV/EBITDA x	3.1	4.2	4.5	4.9
DPS c	4.8	2.5	2.6	2.7
Yield %	17%	9%	9%	10%

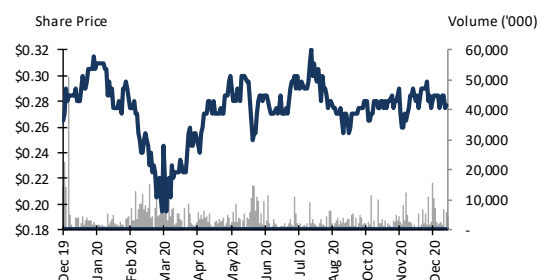
* Adj =underlying including attributable share of Tshipi

#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



Analyst: Mark Fichera

mark.fichera@fostock.com.au

+612 9993 8162



Jupiter Mines Ltd

Full Year End February

Profit and Loss A\$M	2020a	2021e	2022e	2023e
Sales adj.*	411	315	330	335
Other revenue	1	1	1	1
Operating Costs adj.*	267	210	232	243
EBITDA adj.	145	106	99	92
D&A adj.	14	10	15	5
EBIT adj.	131	97	84	88
Net Interest exp / (income) adj.	-9	-7	-6	-5
Profit before tax adj	141	104	90	93
Tax exp / (benefit) adj	42	31	27	28
NPAT adj.	98	73	63	65
Non-recurring gain/(loss)	-3	-6	0	0
NPAT reported	95	67	63	65

EPS diluted adj. (\$)	0.050	0.037	0.032	0.033
DPS (\$)	0.048	0.025	0.026	0.027

All figures shown include JMS attributable share of Tshipi.

*Includes realisation costs

Cashflow A\$M	2020e	2021e	2022e	2023e
EBITDA adj.	145	106	99	92
Equity accounting	-141	-103	-94	-87
Change in WC	-35	-1	-7	0
Tax paid	-1	-2	-1	-1
Net interest	1	0	1	0
Other	31	4	0	0
Operating Cashflow	0	5	-2	5

PPE	0	0	0	0
Exploration	-1	-2	-2	-2
Dividends received	84	26	39	52
Investments	0	0	0	0
Investing Cashflow	83	30	37	50

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	-34	-56	-53
Financing Cashflow	-127	-28	-56	-53

Net Cashflow	-45	7	-21	2
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Balance Sheet A\$M	2020e	2021e	2022e	2023e
Cash	29	32	10	12
Receivables	40	38	45	46
PPE	0	0	0	0
Capitalised exploration	12	12	12	12
Investments	438	483	505	516
Other	1	1	1	1
Total Assets	520	567	575	588
Accounts payable	133	38	35	35
Provisions	0	0	19	19
Debt	0	0	0	0
Other	51	57	55	54
Total Liabilities	184	94	108	109
Reserves and capital	410	411	411	411
Retained earnings	16	48	55	67
Total Equity	426	459	466	478

Capital structure

Ordinary shares	1,959
Fully diluted equity	1,959

Half year splits	1H	2H	1H	2H
	FY20a	FY20a	FY21e	FY21e
Mn 37% RSA, FOB, US\$/dmu	4.94	3.39	4.21	3.62
Total Mn ore shipments Mt	1.7	1.7	1.2	2.0
Sales adj.*	231	169	130	178
EBITDA adj.	106	39	51	56
NPAT adj.	75	24	36	37

All figures shown include JMS attributable share of Tshipi.

*Includes realisation

Financial Metrics	2020a	2021e	2022e	2023e
EPS growth %	-48%	-26%	-13%	3%
Gearing (ND/ND+E)	-7%	-7%	-2%	-3%
Interest Cover (EBIT/net int)	nm	nm	nm	m
Average ROE %	24%	16%	14%	14%
Average ROA %	24%	18%	15%	15%

Earnings multiples	2020a	2021e	2022e	2023e
P/E x	5.6	7.5	8.7	8.4
EV/EBITDA x	3.2	4.3	4.6	5.0
Dividend Yield %	17%	9%	9%	10%

Company Valuation

Segment	A\$M	A\$/share
Tshipi (49.9%)	762	\$ 0.39
Expansion case (discounted by 75%)	174	\$ 0.09
Marketing	72	\$ 0.04
Iron Ore	32	\$ 0.02
Corporate	-27	-\$ 0.01
Net cash - Tshipi attributable	61	\$ 0.03
Net cash - JMS consolidated	28	\$ 0.01
Equity	1,102	\$ 0.56

Tshipi - Assumptions	2020e	2021e	2022e	2023e
Mn 44% China, CIF, US\$/dmu	5.63	5.00	4.69	4.82
Mn 37% RSA, FOB, US\$/dmu	4.16	3.91	3.89	4.02
Tshipi Mn realised, CIF, US\$/dmu	4.66	3.96	4.08	4.20
A\$:US\$	0.69	0.70	0.74	0.75
Rand:US\$	14.60	16.75	15.91	14.98

Mn ore production Mt	3.41	3.34	3.30	3.30
Mn ore shipments Mt	3.41	3.19	3.30	3.30
Cash costs US\$/dmu hi grade, FOB	2.05	1.96	2.06	2.22
Cash costs US\$/dmu total product, CIF	3.01	2.65	2.89	3.08

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 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%
Safika Resources	5.5%

Source: Foster Stockbroking estimates.

**3QFY21 RESULT – BEATS OUR FORECASTS****Costs down and production up**

- JMS released its 3Q report, which showed Tshipi recording an NPAT of \$36M, comfortably beating our estimate of \$27M. The beat was driven by higher production and shipments of 0.93Mt and 1.15Mt – production equivalent to annualised rate of 3.7Mtpa. October was also a record month for Tshipi in mining volume. Shipments included low grade ore as well as high grade, the Mn price still supporting the economics of the former.
- Additionally costs were only US\$1.88/dmtu – below US\$2.00/dmtu for the first time since the IPO, and under the US\$2.12/dmtu of the previous quarter and our estimate of US\$2.06/dmtu. Three drivers of the lower costs were:
 - 1) Lower unit costs from higher shipments and production;
 - 2) Lower royalties from the lower Mn price; and
 - 3) Higher proportion of shipments on lower cost rail vs road.

Transnet and Luderitz outdo expectations

- Concerning logistics, the company mentioned that Transnet had now returned to pre-COVID levels in its rail allocation of product, which previously was a bottleneck. This enabled JMS to move more product on the lower cost rail vs road. Also the company shipped about 60kt/month through Namibia’s Luderitz port – equivalent to 0.7Mtpa, which lies outside MECA, and exceeded its targets. Going forward JMS will begin shipments through another RSA port – Coega – which can accommodate larger ships, potentially further reducing logistic unit costs.

Figure 1: Tshipi 3Q Performance

Metric	Unit	3QFY21	2QFY21	FSBe 3QFY21	Diff vs FSBe	Diff vs pcp
Production	Mt	0.93	0.84	0.83	12%	10%
Shipments	Mt	1.15	0.90	0.83	39%	28%
Mn RSA 37% FOB	US\$/dmtu	3.34	3.62	3.64	-8%	-8%
Mn China 37%, CIF	US\$/dmtu	4.07	4.67	4.02	1%	-13%
A\$:US\$		0.71	0.70	0.72	-1%	1%
ZAR:US\$		16.23	17.02	16.20	0%	-5%
Cash costs high-grade fob	US\$/dmtu	1.88	2.12	2.06	-9%	-11%
	ZAR/dmtu	30.56	36.13	33.3	-8%	-15%
Sales	A\$M	157	154	155	1%	2%
EBITDA	A\$M	51	77	52	-2%	-33%
NPAT	A\$M	36	51	27	34%	-29%
Operating cash flow	A\$M	42	-9	39	8%	nm
Cash	A\$M	123	100	116	6%	22%

EBITDA excludes royalty.

Source: Company; Foster Stockbroking estimates.

CORPORATE

- JMS’s attributable cash was \$89M at end 3QFY21, comprising its share of Tshipi cash (A\$61M) and that on its balance sheet (A\$28M), pipping our forecast of A\$85M.



- The company reiterated its plans for the spin out of its iron ore assets in 1QCY21. Understandably, the priority of NewCo will be endeavouring to fast-track production from the Mount Mason DSO project, given lower capex and shorter lead time vs Mount Ida magnetite.

SHIPMENTS AND EARNINGS UPGRADES

We now expect company FY21 sales guidance to be achieved

- Following the strong sales performance in the 3Q, we upgrade our shipments forecast to 3.2Mt for FY21e vs 2.9Mt previously, now expecting the company to beat its guidance of 3.1Mt.
- We upgrade our FY21e and FY22e NPAT forecasts by 9% to \$73M and \$63M from increased shipments for FY21e (3.2Mt vs 2.9Mt previously) and lower cash costs in both years.

Figure 2: JMS Earnings Forecasts A\$M

Y/e February	FY21e new	old	chnge	FY22e new	old	chnge
Commodity assumptions:						
Mn 37% RSA fob, US\$/dmtu	3.91	3.99	-2%	3.89	3.89	0%
Mn 37% China cif, US\$/dmtu	4.31	4.29	0%	4.27	4.27	0%
A\$:US\$	0.70	0.70	0%	0.74	0.74	0%
ZAR:US\$	16.75	16.75	0%	15.91	15.91	0%
Shipments, Mt	3.19	2.87	11%	3.30	3.30	0%
FOB costs, US\$/dmtu, HG product^	1.96	2.04	-4%	2.06	2.16	-5%
JMS Profit & Loss \$M						
Tshipi attrib.	307	288	7%	320	320	0%
Marketing	8	8	0%	10	10	0%
Sales adj.	315	297	6%	330	330	0%
Other	1	1	0%	1	1	0%
Total revenue adj.	316	297	6%	330	330	0%
Tshipi attrib.	205	194	6%	227	234	-3%
Marketing	1	1	0%	1	1	0%
Corporate	4	4	0%	4	4	0%
Cash costs adj.*	210	199	5%	232	238	-3%
Tshipi attrib.	103	95	9%	94	87	8%
Marketing	7	7	0%	9	9	0%
Corporate	-3	-3	0%	-3	-3	0%
EBITDA adj.	106	99	7%	99	92	8%
D&A adj.	10	10	-3%	15	15	-1%
EBIT adj.	97	89	9%	84	78	8%
Net interest	-7	-7	0%	-6	-6	0%
PBT adj.	104	96	9%	90	83	9%
Tax adj.	31	29	8%	27	25	8%
Tshipi attrib.	72	66	9%	61	55	10%
Marketing	5	5	0%	6	6	0%
Corporate	-4	-4	0%	-4	-4	0%
NPAT adj.	73	67	9%	63	58	9%
non-recurring items	-6	-6	0%	0	0	0%
NPAT reported	67	61	10%	63	58	9%

*Tshipi sales and costs include realisation. ^HG= high grade product.

Adj = underlying estimate. Source: Foster Stockbroking estimates.

**VALUATION****Share valuation \$0.56 up from \$0.53**

- Our NPV₁₀ share valuation of JMS has increased to \$0.56 from \$0.53, following better cash position and increase in our earnings forecasts.

Figure 5: JMS Valuation

Segment	A\$M	A\$/share
Tshipi (49.9%)	762	\$0.39
Expansion case (discounted by 75%)	174	\$0.09
Marketing	72	\$0.04
Iron Ore (0.5x NPV)	32	\$0.02
Corporate	-27	-\$0.01
Net cash - Tshipi attributable	61	\$0.03
Net cash - JMS consolidated	28	\$0.01
Equity	1,102	\$0.56
Shares M	1,959	

Source: Foster Stockbroking estimates. NPV₁₀ employed for all segments.

RECOMMENDATION – MAINTAIN BUY, 12-MONTH PT RAISED TO \$0.56

- We maintain our Buy recommendation and increase our 12-month share price target of \$0.56, based on 1.0x Price/NPV, up from \$0.53.
- Our PT and NPV is underpinned by JMS' exposure to Tshipi's long-life Reserves, lowest quartile cost cash position, potential for low-cost expansion, attractive dividend yield (9% in FY22e) reflecting Tshipi's underlying cash flows, and absence of debt on both Tshipi and JMS balance sheets.
- We expect catalysts for the share price to be higher Mn prices, positive mine performance, corporate activity, costs reductions, iron ore demerger, and result of expansion feasibility study.



FOSTER STOCKBROKING DISCLOSURES

Name	Department	Phone	Email
Stuart Foster	Chief Executive Officer	+61 2 9993 8131	stuart.foster@fostock.com.au
Sam Christie	Institutional Sales	+61 2 9993 8152	samuel.christie@fostock.com.au
Chris Dorney	Institutional Sales	+61 2 9993 8144	chris.dorney@fostock.com.au
James Gore	Institutional Sales	+61 2 9993 8121	james.gore@fostock.com.au
David Salmon	Institutional Sales	+61 2 9993 8168	david.salmon@fostock.com.au
Carmie Olowoyo	Institutional Sales Perth	+61 401 064 237	carmie.olowoyo@fostock.com.au
George Mourtzouhos	Execution & Dealing	+61 2 9993 8136	george.mourtzouhos@fostock.com.au
Rob Telford	Corporate	+61 2 9993 8132	rob.telford@fostock.com.au
Mark Fichera	Head of Research	+61 2 9993 8162	mark.fichera@fostock.com.au
Matthew Chen	Research	+61 2 9993 8130	matthew.chen@fostock.com.au

Foster Stockbroking Pty Ltd
A.B.N. 15 088 747 148 AFSL No. 223687
Sydney: Level 25, 52 Martin Place, Sydney, NSW 2000 Australia
Perth: Level 9, 66 St Georges Terrace, Perth WA 6000 Australia
General: +612 9993 8111 Equities: +612 9993 8100 Fax: +612 9993 8181
<http://www.fostock.com.au>
Email: contact@fostock.com.au
PARTICIPANT OF ASX GROUP

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Specific disclosure: The analyst owns 476,276 JMS securities at the time of this report. Diligent care has been taken care by the analyst to maintain honesty and fairness in writing the report and making the recommendation.

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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.