



Jupiter Mines Ltd (JMS.ASX)

Tshipi manganese mine – long life, ample cash flow

Event:

- We initiate formal research coverage on Jupiter Mines Limited (JMS).

Investment Highlights:

- Jupiter owns a 49.9% interest in the Tshipi Borwa (Tshipi) mine, South Africa's largest manganese (Mn) mine, via the Tshipi e Ntle JV.** The balance of Tshipi is held by OM Holdings and Ntsimbintle Mining, the latter satisfying the mine's Black Economic Empowerment (BEE).
- Long-life, high-grade mine.** Tshipi is located in the rich Kalahari Manganese Field (KMF) which has produced Mn for over 75 years. It contains 464Mt JORC Resources at 33.0% Mn, including JORC Reserves of 88Mt at 36.3% Mn, implying a mine life of about 25 years based on Reserves, assuming 3.3Mtpa production.
- Conventional mining, simple processing.** Mining at Tshipi is truck and shovel with processing by crush and screen to chiefly produce 36.5% Mn lump and 35.5% Mn fines. Production and sales were a record 3.6Mt and 3.3Mt in FY18a.
- Fast rail load out allows Tshipi to exceed allocated shipments.** The major competitive advantage of Tshipi is its rapid rail load out, which includes an 8km rail loop that can load trains in under 4 hours vs 12-13 hours of peers. This allows Tshipi to exceed its rail allocation, as it quickly fills spare capacity vs other mines.
- Low cost producer with further cost savings.** We estimate Tshipi lies in the 2nd lowest cost quartile and that FY18 FOB & CIF cash costs were US\$2.09 and \$2.67/dmtu. Tshipi has achieved cost savings by shipping more ore on rail (less on road). Further savings include in-pit backfilling, grid power, higher rail allocation, and plant optimization which will counter impact of RSA inflation.
- Exceptional Board.** JMS Chairman is Brian Gilbertson, who has extensive experience in South African mining including manganese, and formerly BHP Billiton CEO. CEO is Mr Priyank Thapliyal who has been involved since Tshipi's inception and in the listing of Vedanta on the LSE.
- Negligible change expected from revised Mining Charter.** The proposed revised RSA Mining Charter is expected to be finalised in June 2018. A key proposal is increase of BEE to 30%. However Tshipi already well exceeds this (37%).

Earnings and Valuation:

- JMS equity accounts its Tshipi interest and we forecast JMS to report underlying of NPAT of A\$143M for FY19e and A\$75M for FY20e.** We forecast 37% Mn RSA prices of US\$5.59/dmtu and US\$4.26/dmtu in FY19e and FY20e. Our forecast FY19e production of 3.3Mt and FOB cash costs of US\$2.23/dmtu are in-line with company guidance of 3.3Mt and US\$2.20/dmtu.
- We derive a valuation of JMS of \$0.64/share predominantly by DCF (NPV₁₀).** This value is within the range of that derived from using comparative peer PE and EBITDA multiples (\$0.51-\$0.79/share).

Recommendation:

- We initiate coverage on JMS with a Buy recommendation and 12-month price target of \$0.64/share based on our valuation.
- Catalysts for the share price include continued generation of earnings; receipt of Tshipi distributions; and payment of dividends or buyback by JMS.

Recommendation		Buy		
Previous			n/a	
Risk			High	
Price Target		\$ 0.640		
Previous			n/a	
Share price (A\$)		\$ 0.350		
ASX code			JMS	
52 week low-high			0.325-0.43	
Valuation risked (A\$/share)		\$ 0.640		
Methodology		DCF		
Capital structure				
Shares on Issue (M)		1,948		
Market cap (A\$M)		682		
Net cash (debt) attributable (A\$M)		36		
EV (A\$M)		646		
Y/end Feb (A\$M)	FY18a	FY19e	FY20e	FY21e
Sales	0	0	0	0
EBITDA adj.	101.2	147.2	76.4	76.9
NPAT reported	92.2	143.0	74.9	75.4
NPAT adj	95.3	143.0	74.9	75.4
EPS adj. \$	0.04	0.08	0.04	0.05
PE x	7.9	4.4	7.9	7.6
EV/EBITDA x	6.0	4.1	7.9	7.9
Dist'n decl. \$/share	0.05	0.05	0.04	0.03
Yield %	14%	14%	10%	9%
Board				
Brian Gilbertson		Non-Executive Chairman		
Priyank Thapliyal		CEO and Executive Director		
Paul Murray		Non-Executive Director		
Andrew Bell		Non-Executive Director		
Sungwoon Yoon		Non-Executive Director		
Substantial shareholders				
Stichting Penioenfond ABP		14.8%		
Investec Bank		13.4%		
Pallinghurst Steel feed (Dutch) BV		7.5%		
POSCO Australia GP Pty Ltd		6.9%		
HJM Jupiter LP		5.0%		

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The analyst does not own JMS securities.
 Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 10,949,091 JMS shares.
 Cranport Pty Ltd owns 10,800,000 JMS shares.

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.