

8 July 2014

Poseidon Nickel

POS A\$0.11/share

Black Swan acquisition a game changer

BUY

Poseidon (POS) has acquired the Black Swan nickel project from Norilsk Nickel for cash, using available funds (we estimate a price of A\$1-4M). Black Swan is located in Western Australia, approximately 50km northeast of Kalgoorlie and ~330km south of the Mt Windarra nickel project. The project consists of the Black Swan open pit mine, the Silver Swan underground mine, a 2.2Mtpa processing plant, stockpiles and associated infrastructure. We view the acquisition as transformational, as it dramatically reduces the capital involved in building a standalone plant at Mt Windarra and enables the company to consider various production options. We maintain a BUY on POS, which is trading at a significant discount to NPV of A\$0.44/sh (fully diluted).

Transaction details

- Black Swan assets – open pit & underground mines, 2.2Mtpa plant and stockpiles, together with associated infrastructure.
- Price – small, funded internally (we estimate A\$1-4M).
- Completion – deposit paid, expect close in 6 months.

Black Swan nickel project

- Operated since 1996 (underground) & 2004 (open pit).
- Care & maintenance since 2009 due to low Ni prices.
- Open pit resources (26Mt at 0.7% Ni) could provide concurrent production to Mt Windarra 3rd party offtake.

Acquisition saves on capital and increases options

- Tolling agreement with 3rd party remains viable option.
- Enables cost savings of ~\$200M to build a standalone plant and infrastructure at Mt Windarra.
- POS can truck ore from Mt Windarra to Black Swan for processing.
- Potential to process stockpiled material at Black Swan in near-term and in-pit resources med-term.

Modelled scenario for Mt Windarra/Black Swan

- Assumed Mt Windarra toll treatment from FY15-17.
- Black Swan to restart and mill 0.5Mtpa in early 2015.
- Both restarts funded by equity raise of A\$15M (at A\$0.10 = 150M shares), plus A\$25M of project debt.
- Balance sheet debt of ~A\$9M repaid from cash flow.
- Convertible notes repaid in 2017 from cashflow.
- Q4 2014 – first ore sent to 3rd party facility.
- Q1 2015 – Black Swan restarts on stockpiled ore.

Company Data

Shares – ordinary (M)	513.9M
Unlisted Options (22c/share 2016)	7.2M
Conv. Notes (30c & 40c/sh Mar 2017)	101.5M
Market capitalisation (\$M)	56.5
12 month low/high (\$)	\$0.07/ \$0.15
Average monthly turnover (\$M)	\$1.5M
Average monthly volume (M)	16.4M

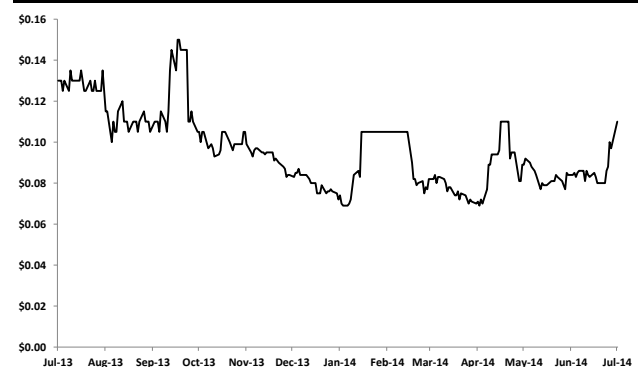
Financial Summary (diluted for further A\$15M equity raise)

Year end June	2014F	2015F	2016F	2017F	2018F
Revenue (\$M)	0.0	57.1	155.7	194.4	205.4
Costs (\$M)	3.0	42.2	101.4	121.3	139.5
EBITDA (\$M)	(3.0)	14.9	54.3	73.1	65.9
NPAT (\$M)	(4.6)	5.8	28.8	43.2	44.7
EPS (¢ps)	(0.7)	0.9	4.3	6.5	6.7
EPS Growth (%)	na	+100	+100	50.2	3.4
PER (x)	na	12.5	2.5	1.7	1.6
Cashflow (\$M)	(4.6)	12.9	50.2	61.0	49.7
CFPS (¢ps)	(0.7)	1.9	7.6	9.2	7.5
PCFPS (x)	na	5.6	1.5	1.2	1.5
Enterprise Value (\$M)	98.6	108.4	67.2	15.2	(27.5)
EV / EBITDA (x)	(32.9)	7.3	1.2	0.2	(0.4)

Substantial Shareholders

Substantial Shareholders	Shares (M)	(%)
Andrew Forrest	129.8	25.3%

POS – performance over one year



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital was a broker to the issue of 46.7M shares at \$0.08/share in May 2014, raising A\$3.7M. A fee was received

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Black Swan purchase is transformational

The purchase of Black Swan (Figures 1-4) enables POS to consider several production options whilst eliminating any capital that had been required to build a standalone processing plant at Mt Windarra.

We have assumed that POS will finalise an ore tolling agreement in the near-term and deliver ore into this contract concurrent with restarting production at Black Swan. Following the expiry of the ore tolling agreement, we expect Mt Windarra ore to be trucked to Black Swan for processing.

We assume the following

- 0.5Mtpa ore at 1.7% Ni produced under a tolling agreement with a 3rd party from FY15-17.
- Production at Black Swan is restarted in early 2015 initially processing stockpiled ore.
- Nickel recovery – 80%
- Nickel payability – 72%
- Existing debt of ~A\$8.5M is repaid in FY15 from cash flow.
- Convertible notes of US\$35M are repaid in FY17 from cash flow.
- Mine life of 13 years.

Figure 1: Black Swan processing plant



Source: Poseidon Nickel

Figure 2: Black Swan ROM pad & crushers



Source: Poseidon Nickel

Figure 3: Black Swan open pit



Source: Poseidon Nickel

Figure 4: Black Swan concentrate shed



Source: Poseidon Nickel

Sources and Uses of Funds

We assume that POS finalises an ore toll treating agreement from FY15-17 with a 3rd party facility for 0.5Mtpa from Mt Windarra. Concurrently, we've modelled POS commencing production at Black Swan at a rate of 0.2Mtpa and increasing to 0.7Mtpa (in FY18).

Following the ore tolling agreement, we assume that Mt Windarra (and Cerberus) ore will be trucked to Black Swan for processing.

Total capital costs are estimated at A\$40M to restart both Mt Windarra and Black Swan and allow for working capital (Figure 5).

In terms of funding, we have assumed \$15M in equity and \$25M of debt. Equity of A\$15M is assumed to be raised at A\$0.10/share, resulting in 150M new shares.

Figure 5: Petra estimates – Sources and Uses of funds

A total of \$40M is assumed to restart both Mt Windarra and Black Swan.

Sources	A\$M
Equity*	*15.0
Project debt funding	25.0
Total	40.0
Uses	A\$M
Restart for toll treatment	15.0
Initial working capital – restart of Mt Windarra	10.0
Refurbishment of Black Swan	15.0
Total (inc. contingency)	40.0

Source: Petra Capital. *Note: Assumed A\$15M raised at A\$0.10/share

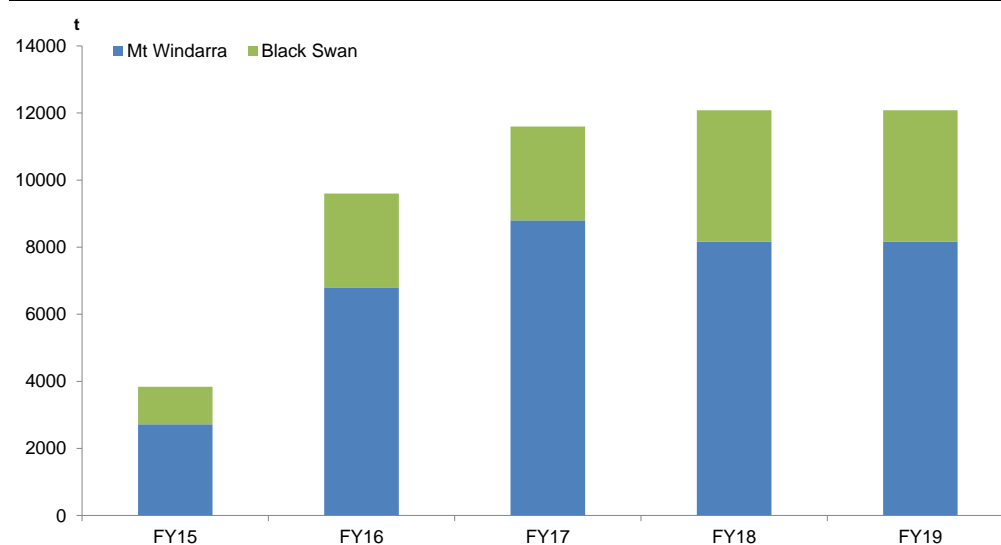
Production forecast to restart in near-term

Production from Mt Windarra is assumed to start in late 2014, ramping up over the next few years and averaging >8,000tpa of nickel. Black Swan is estimated to produce concurrently, with average production of 3,500tpa nickel (Figure 6).

Upside exists to nickel production, given we have assumed a maximum mill capacity of 1.7Mtpa compared to the mill's design capacity of 2.15Mtpa.

Figure 6: Nickel production – Mt Windarra and Black Swan

The majority of nickel production is forecast from Mt Windarra, with supplementary production from Black Swan.



Source: Petra Capital

Analysis – (fully diluted for a further \$15M of equity funding)

Poseidon Nickel Limited (POS)						Share Price (\$)	0.11	PETRA CAPITAL					
8-Jul-14						Iss. Shares (M)	663.9	7.2 Expire Aug & Nov 2016 (Exc. @ \$0.22/sh)					
Year End 30 June						Iss. Options (M)	7.2	Expire March 2017 (Exc. @ \$0.40/sh)					
						Convertible Notes (M)	64.9	Expire March 2017 (Exc. @ \$0.30/sh)					
						Convertible Notes (M)	772.6						
						Fully diluted equity (M)	772.6						
						Mkt Cap. (\$M)	73.0	Undiluted for options & convertible notes					
PROFIT & LOSS						RESERVES/RESOURCES							
	2013A	2014F	2015F	2016F	2017F	2013A	2014F	2015F	2016F	2017F			
Sales Revenue	\$M	0.0	0.0	57.1	155.7	194.4	Reserves (nickel)						
Other Income	\$M	0.5	0.0	0.0	0.0	0.0	Tonnes	Mt	1.5	1.7	1.3	0.3	0.0
Operating Costs	\$M	3.3	3.0	42.2	101.4	121.3	Grade	%	1.3%	1.4%	1.5%	2.5%	0.0%
Exploration	\$M	1.3	0.0	0.0	0.0	0.0	Nickel	t	19,956	24,754	19,934	7,884	0
Other	\$M	2.3	0.0	0.0	0.0	0.0	Resources (nickel)						
EBITDA	\$M	(6.4)	(3.0)	14.9	54.3	73.1	Tonnes	Mt	9.3	9.3	35.6	34.6	33.4
Depreciation & Amort.	\$M	0.0	0.0	4.6	11.6	11.6	Grade	%	1.6%	1.6%	0.9%	0.4%	0.4%
EBIT	\$M	(6.5)	(3.0)	10.3	42.7	61.5	Nickel	t	144,674	148,856	144,036	131,986	117,526
Net Interest	\$M	6.9	1.6	2.0	1.7	(0.2)	PRODUCTION						
Pre-Tax Profit	\$M	(13.4)	(4.6)	8.3	41.1	61.7	Nickel						
Tax	\$M	0.0	0.0	2.5	12.3	18.5	Ore processed	Mt	0.000	0.000	0.400	1.000	1.200
Minorities	\$M	0.0	0.0	0.0	0.0	0.0	Grade - nickel	%	0.0%	0.0%	1.2%	1.2%	1.2%
Net Profit	\$M	(13.4)	(4.6)	5.8	28.8	43.2	Contained nickel	t	0	0	4,820	12,050	14,460
Abnormal	\$M	0.0	0.0	0.0	0.0	0.0	Recovery	%	0%	0%	80%	80%	80%
Reported Profit	\$M	(13.4)	(4.6)	5.8	28.8	43.2	Nickel in concentrate	t	0	0	3,856	9,640	11,568
Dividends Paid	\$M	0.0	0.0	0.0	0.0	0.0	Smelter charge	%	0%	0%	28%	28%	28%
Adjustments	\$M	0.0	0.0	0.0	0.0	0.0	Smelter charge	t	0	0	1,080	2,699	3,239
Retained Earnings	\$M	(262.0)	(266.7)	(260.8)	(232.1)	(188.8)	Retained POS nickel	t	0	0	2,776	6,941	8,329
CASH FLOW						REVENUE (nickel)							
Revenue	\$M	0.2	0.0	57.1	155.7	194.4	Windarra-Black Swan	ASM	0.0	0.0	57.1	155.7	194.4
Costs	\$M	(5.6)	(3.0)	(42.2)	(101.4)	(121.3)	Other	ASM	0.5	0.0	0.0	0.0	0.0
Net Interest	\$M	(0.5)	(1.6)	(2.0)	(1.7)	0.2	Total	ASM	0.5	0.0	57.1	155.7	194.4
Tax Paid	\$M	0.0	0.0	0.0	(2.5)	(12.3)	COSTS (Assumed 28% of metal for smelting)						
Gross Cash Flow	\$M	(5.8)	(4.6)	12.9	50.2	61.0	Windarra-Black Swan	ASM	0.0	0.0	39.2	98.4	118.3
Capex / Mine Dev.	\$M	(0.8)	(2.0)	(35.0)	(6.0)	(6.0)	Corporate / Other	ASM	3.3	3.0	3.0	3.0	3.0
Exploration	\$M	(12.8)	0.0	(2.0)	(3.0)	(3.0)	Total	ASM	3.3	3.0	42.2	101.4	121.3
Dividends	\$M	0.0	0.0	0.0	0.0	0.0	Cash costs	AS\$/lb	0.00	0.00	6.40	6.43	6.44
Other	\$M	1.6	2.5	0.0	0.0	0.0	Cash costs	US\$/lb	0.00	0.00	5.66	5.53	5.48
Free Cashflow	\$M	(17.9)	(4.1)	(24.1)	41.2	52.0	CAPEX / Exploration & Development						
Equity Issues	\$M	0.0	7.1	14.3	0.0	0.0	Windarra-Black Swan	\$M	0.8	2.0	33.0	3.0	3.0
Net Borrowings	\$M	(0.1)	0.0	25.0	0.0	(41.2)	Expl./dev.	\$M	12.8	0.0	2.0	3.0	3.0
Net Investments	\$M	0.0	0.0	0.0	0.0	0.0	Other	\$M	0.0	0.0	0.0	0.0	0.0
Surplus Cash Flow	\$M	(18.0)	3.0	15.2	41.2	10.8	Total	\$M	13.6	2.0	35.0	6.0	6.0
BALANCE SHEET						DEPRECIATION & AMORTISATION							
Cash	\$M	2.6	5.6	20.8	62.0	72.8	Windarra-Black Swan	\$M	0.0	0.0	4.6	11.6	11.6
Other Current	\$M	2.8	2.8	2.9	7.8	9.7	Other	\$M	0.0	0.0	0.0	0.0	0.0
Total Current	\$M	5.4	8.4	23.6	69.8	82.5	Total	\$M	0.0	0.0	4.6	11.6	11.6
Fixed Assets	\$M	47.9	49.9	80.3	74.7	69.1	HEDGING - NICKEL						
Exploration	\$M	27.0	27.0	29.0	32.0	35.0	Nickel Hedged	t	0	0	0	0	0
Intangibles	\$M	0.0	0.0	0.0	0.0	0.0	Hedged Price	US\$/t	0	0	0	0	0
Other	\$M	3.5	1.0	1.0	1.0	1.0	Hedged Price	US\$/lb	0.00	0.00	0.00	0.00	0.00
Total NC Assets	\$M	78.4	77.9	110.3	107.7	105.1	Sales hedged	%	0%	0%	0%	0%	0%
TOTAL ASSETS	\$M	83.8	86.3	133.9	177.5	187.6	Average Deliverable	US\$/t	0	0	18,188	19,290	19,841
Total Debt	\$M	31.1	31.1	56.1	56.1	15.0	Average Deliverable	US\$/lb	0.00	0.00	8.25	8.75	9.00
Current Liab	\$M	12.1	12.1	14.6	24.4	30.6	Average Deliverable	AS\$/lb	0.00	0.00	9.32	10.17	10.59
Non Current Liab	\$M	0.0	0.0	0.1	5.0	6.9	HEDGING - CURRENCY						
TOTAL LIAB	\$M	43.2	43.3	70.8	85.6	52.5	Hedged Forward Sales	US\$M	0.0	0.0	0.0	0.0	0.0
NET ASSETS	\$M	40.5	43.0	63.1	91.9	135.1	Hedged Forward Price	AS/US\$	0.0	0.0	0.0	0.0	0.0
SH/HLDRS FUNDS	\$M	40.5	43.0	63.1	91.9	135.1	Hedged Sales	%	0%	0%	0%	0%	0%
RATIO ANALYSIS						AVERAGE DELIVERABLE PRICES (incorporates hedging and spot FX / metal prices)							
EPS	¢	(3.3)	(0.7)	0.9	4.3	6.5	Ave. deliv. hedge price	AS/t	0.0	0.0	20,551	22,430	23,343
PER	x	na	na	12.5	2.5	1.7	Ave. deliv. hedge price	AS/lb	0.00	0.00	9.32	10.17	10.59
EPS Growth	%	na	na	+100	+100	50.2	ASSUMPTIONS						
CFPS	¢	(1.4)	(0.7)	1.9	7.6	9.2	Exchange Rate	AS/US\$	1.02	0.90	0.89	0.86	0.85
PCFR	x	na	na	5.6	1.5	1.2	Gold	US\$/oz	1595	1308	1300	1263	1250
DPS	¢	0.0	0.0	0.0	0.0	0.0	Nickel	US\$/lb	7.42	6.82	8.25	8.75	9.00
Yield	%	0.0	0.0	0.0	0.0	0.0	Nickel	US\$/t	16,348	15,037	18,188	19,290	19,841
Franking	%	100	100	100	100	100	Nickel	AS/lb	7.24	7.55	9.32	10.17	10.59
Payout Ratio	%	0%	0%	0%	0%	0%	90 day Bank Bills	%	3.15	2.62	2.55	2.63	2.88
Gearing ND/E	%	70.5	59.4	56.0	na	na	10 Yr Bond rate	%	3.29	4.02	3.75	3.38	3.38
Gearing ND/(ND+E)	%	41.3	37.2	35.9	na	na	Interest Rate Charged	%	3.79	4.52	4.25	3.88	3.88
Interest Cover	x	na	na	5.3	25.9	na	VALUATION (WACC = 10%)						
EBITDA Margin	%	na	na	26.1	34.9	37.6	Windarra-Black Swan	ASM				327.9	\$ 0.49
EBIT Margin	%	na	na	18.0	27.5	31.6	Exploration					10.0	\$ 0.02
Return On Assets	%	(7.7)	(3.5)	7.7	24.1	32.8	Corporate / Other					(21.6)	\$ (0.03)
Return On Equity	%	(33.0)	(10.7)	9.2	31.3	32.0	Net Cash (Debt)					(25.5)	\$ (0.04)
EBITDA per share	¢	(1.6)	(0.5)	2.2	8.2	11.0	Total					290.8	\$ 0.44
EBITDA multiple	x	(8.2)	(24.3)	4.9	1.3	1.0							
EV	\$M	81.6	98.6	108.4	67.2	15.2							
EV/EBITDA	x	(12.7)	(32.9)	7.3	1.2	0.2							
Eff Tax rate	%	0	0	30	30	30							

Source: Petra Capital. Note: Assumed capital raise – \$15M issue (at \$0.10) in FY15

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