

6 May 2014

## Poseidon Nickel

**POS A\$0.08/share**

**Capital raise completed – final mine refurbishment underway**

**BUY**

Poseidon (POS) has successfully completed an A\$3.7M capital raising (46.7M shares @ A\$0.08/share) to sophisticated and institutional investors. Funds will be used to carry out de-watering and final underground refurbishment at the Mt Windarra mine prior to production start-up. Advanced discussions continue on an ore treatment agreement for Mt Windarra and we expect the finalisation of a tolling agreement in coming weeks. We maintain a BUY recommendation on POS, which remains attractively valued at A\$0.34/share (fully diluted).

### Underground work prior to mining restart

- Dewatering activities – to recommence immediately.
- Requirements – mono pumps & pipeline.
- Pumping capacity – increased; staged in-line system.
- Final refurbishment – rebolt decline & install services.
- Capex – A\$4M.
- Cash – A\$6.5M (post raise).

### Toll treatment assumptions – Petra Capital

- Infrastructure – in place; final refurb underway.
- Offtake – assumed 3 years (then own conc. prod).
- Production – 4 months post agreement.
- Capex – assume A\$15M to commence production.
- Production – 0.35Mtpa to 0.5Mtpa ore (6-9ktpa Ni).
- EBITDA – potentially A\$25-50Mpa.

### Changes to forecast nickel price and A\$US\$

- FY15 nickel price to US\$8.25/lb (was US\$7.00/lb).
- FY16 nickel price to US\$8.75/lb (was US\$7.25/lb).
- LT nickel prices up to US\$9.00/lb (was US\$7.50/lb).
- FY15 A\$US\$ up to 0.89 (was 0.88).
- FY16 A\$US\$ up to 0.86 (was 0.84).
- LT A\$US\$ up to 0.85 (was 0.82).

### Impact on valuation and forecast earnings

- FY15 NPAT up to A\$12M (was A\$9M).
- FY16 NPAT of A\$24M (as per previous estimate).
- Fully diluted NPV is A\$0.34/share (was A\$0.26/sh).

### Key dates and newsflow

- Q2 2014 – Finalise ore treatment agreement.
- Q2/Q3 2014 – Refurbishment of Mt Windarra.
- Q3 2014 – Mining commences at Mt Windarra.
- Late Q3 2014 – First ore transported to 3<sup>rd</sup> party facility.

### Company Data

Shares – ordinary	513.5M
Unlisted Options (22c/share 2016)	7.2M
Conv. Notes (30c & 40c/sh Mar 2017)	101.5M
Market capitalisation (\$M)	41.6
12 month low/high (\$)	\$0.07/ \$0.21
Average monthly turnover (\$M)	\$1.3M
Average monthly volume (M)	8.7M

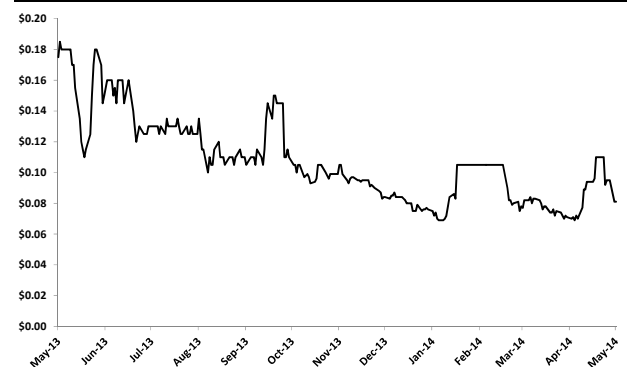
### Financial Summary (Diluted for further A\$15M equity raise)

Year end June	2013A	2014F	2015F	2016F	2017F
Revenue (\$M)	0.0	0.0	70.4	109.8	114.3
Costs (\$M)	3.3	3.0	45.9	64.6	64.8
EBITDA (\$M)	(6.4)	(3.0)	24.5	45.2	49.5
NPAT (\$M)	(13.4)	(4.7)	12.4	24.4	27.1
EPS (¢ps)	(3.3)	(0.7)	1.9	3.7	4.1
EPS Growth (%)	na	na	+100	+100	10.9
PER (x)	na	na	4.3	2.2	2.0
Cashflow (\$M)	(5.8)	(4.7)	23.1	39.3	38.1
CFPS (¢ps)	(1.4)	(0.7)	3.5	5.9	5.7
PCFPS (x)	na	na	2.3	1.4	1.4
Enterprise Value (\$M)	81.6	76.7	61.6	32.3	84.2
EV / EBITDA (x)	(12.7)	(25.6)	2.5	0.7	1.7

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

Poseidon Nickel Limited (POS)						Share Price (\$)		PETRA CAPITAL					
6-May-14						0.08		7.2 Expire Aug & Nov 2016 (Exc. @ \$0.22/sh)					
Year End 30 June						663.5		36.5 Expire March 2017 (Exc. @ \$0.40/sh)					
						772.2		64.9 Expire March 2017 (Exc. @ \$0.30/sh)					
						53.7		Unclutled 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	70.4	109.8	114.3	<b>Reserves (nickel)</b>						
Other Income	\$M	0.5	0.0	0.0	0.0	0.0	Tonnes	Mt	1.5	1.7	1.4	0.9	0.0
Operating Costs	\$M	3.3	3.0	45.9	64.6	64.8	Grade	%	1.3%	1.4%	1.4%	1.2%	0.5%
Exploration	\$M	1.3	0.0	0.0	0.0	0.0	Nickel	t	19,956	24,754	18,804	10,304	1,804
Other	\$M	2.3	0.0	0.0	0.0	0.0	<b>Resources (nickel)</b>						
<b>EBITDA</b>	<b>\$M</b>	<b>(6.4)</b>	<b>(3.0)</b>	<b>24.5</b>	<b>45.2</b>	<b>49.5</b>	Tonnes	Mt	9.3	10.1	9.7	9.2	8.7
Depreciation & Amort.	\$M	0.0	0.0	5.4	9.7	9.9	Grade	%	1.6%	1.6%	1.5%	1.5%	1.5%
<b>EBIT</b>	<b>\$M</b>	<b>(6.5)</b>	<b>(3.0)</b>	<b>19.1</b>	<b>35.5</b>	<b>39.6</b>	Nickel	t	144,674	156,442	150,492	141,992	133,492
Net Interest	\$M	6.9	1.7	1.4	0.6	0.9	<b>PRODUCTION</b>						
<b>Pre-Tax Profit</b>	<b>\$M</b>	<b>(13.4)</b>	<b>(4.7)</b>	<b>17.7</b>	<b>34.9</b>	<b>38.7</b>	<b>Nickel</b>						
Tax	\$M	0.0	0.0	5.3	10.5	11.6	Ore processed	Mt	0.000	0.000	0.350	0.500	0.500
Minorities	\$M	0.0	0.0	0.0	0.0	0.0	Grade - nickel	%	0.0%	0.0%	1.7%	1.7%	1.7%
<b>Net Profit</b>	<b>\$M</b>	<b>(13.4)</b>	<b>(4.7)</b>	<b>12.4</b>	<b>24.4</b>	<b>27.1</b>	Contained nickel	t	0	0	5,950	8,500	8,500
Abnormal	\$M	0.0	0.0	0.0	0.0	0.0	Recovery	%	0%	0%	80%	80%	80%
<b>Reported Profit</b>	<b>\$M</b>	<b>(13.4)</b>	<b>(4.7)</b>	<b>12.4</b>	<b>24.4</b>	<b>27.1</b>	Nickel in concentrate	t	0	0	4,760	6,800	6,800
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	1,333	1,904	1,904
<b>Retained Earnings</b>	<b>\$M</b>	<b>(262.0)</b>	<b>(266.8)</b>	<b>(254.4)</b>	<b>(230.0)</b>	<b>(202.9)</b>	Retained POS nickel	t	0	0	3,427	4,896	4,896
<b>CASH FLOW</b>						<b>REVENUE (nickel + gold)</b>							
Revenue	\$M	0.2	0.0	70.4	109.8	114.3	Windarra-Cerberus	A&M	0.0	0.0	70.4	109.8	114.3
Costs	\$M	(5.6)	(3.0)	(45.9)	(64.6)	(64.8)	Other	A&M	0.5	0.0	0.0	0.0	0.0
Net Interest	\$M	(0.5)	(1.7)	(1.4)	(0.6)	(0.9)	Total	A&M	0.5	0.0	70.4	109.8	114.3
Tax Paid	\$M	0.0	0.0	0.0	(5.3)	(10.5)	<b>COSTS (Assumed 28% of metal for smelting)</b>						
<b>Gross Cash Flow</b>	<b>\$M</b>	<b>(5.8)</b>	<b>(4.7)</b>	<b>23.1</b>	<b>39.3</b>	<b>38.1</b>	Windarra-Cerberus	A&M	0.0	0.0	42.9	61.6	61.8
Capex / Mine Dev.	\$M	(0.8)	(15.0)	(6.0)	(7.0)	(87.0)	Corporate / Other	A&M	3.3	3.0	3.0	3.0	3.0
Exploration	\$M	(12.8)	0.0	(2.0)	(3.0)	(3.0)	Total	A&M	3.3	3.0	45.9	64.6	64.8
Dividends	\$M	0.0	0.0	0.0	0.0	0.0	Cash costs	A\$/lb	0.00	0.00	5.68	5.71	5.72
Other	\$M	1.6	2.5	0.0	0.0	0.0	Cash costs	US\$/lb	0.00	0.00	5.03	4.91	4.86
<b>Free Cashflow</b>	<b>\$M</b>	<b>(17.9)</b>	<b>(17.2)</b>	<b>15.1</b>	<b>29.3</b>	<b>(51.9)</b>	<b>CAPEX / Exploration &amp; Development</b>						
Equity Issues	\$M	0.0	22.1	0.0	0.0	0.0	Windarra-Cerberus	\$M	0.8	15.0	4.0	4.0	84.0
Net Borrowings	\$M	(0.1)	10.0	(8.0)	0.0	8.8	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
<b>Surplus Cash Flow</b>	<b>\$M</b>	<b>(18.0)</b>	<b>14.9</b>	<b>7.1</b>	<b>29.3</b>	<b>(43.0)</b>	Total	\$M	13.6	15.0	6.0	7.0	87.0
<b>BALANCE SHEET</b>						<b>DEPRECIATION &amp; AMORTISATION</b>							
Cash	\$M	2.6	17.5	24.6	53.9	10.9	Windarra-Cerberus	\$M	0.0	0.0	5.4	9.7	9.9
Other Current	\$M	2.8	2.8	3.5	5.5	5.7	Other	\$M	0.0	0.0	0.0	0.0	0.0
<b>Total Current</b>	<b>\$M</b>	<b>5.4</b>	<b>20.3</b>	<b>28.1</b>	<b>59.4</b>	<b>16.6</b>	Total	\$M	0.0	0.0	5.4	9.7	9.9
Fixed Assets	\$M	47.9	62.9	63.5	60.8	137.8	<b>HEDGING - NICKEL</b>						
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
<b>Total NC Assets</b>	<b>\$M</b>	<b>78.4</b>	<b>90.9</b>	<b>93.5</b>	<b>93.8</b>	<b>173.8</b>	Sales hedged	%	0%	0%	0%	0%	0%
<b>TOTAL ASSETS</b>	<b>\$M</b>	<b>83.8</b>	<b>111.2</b>	<b>121.6</b>	<b>153.2</b>	<b>190.4</b>	Average Deliverable	US\$/t	0	0	18,188	19,290	19,841
Total Debt	\$M	31.1	41.1	33.1	33.1	42.0	Average Deliverable	US\$/lb	0.00	0.00	8.25	8.75	9.00
Current Liab	\$M	12.1	12.1	17.4	22.6	23.7	Average Deliverable	A\$/lb	0.00	0.00	9.32	10.17	10.59
Non Current Liab	\$M	0.0	0.0	0.7	2.7	2.9	<b>HEDGING - CURRENCY</b>						
<b>TOTAL LIAB</b>	<b>\$M</b>	<b>43.2</b>	<b>53.3</b>	<b>51.3</b>	<b>58.4</b>	<b>68.6</b>	Hedged Forward Sales	US\$M	0.0	0.0	0.0	0.0	0.0
<b>NET ASSETS</b>	<b>\$M</b>	<b>40.5</b>	<b>57.9</b>	<b>70.3</b>	<b>94.7</b>	<b>121.8</b>	Hedged Forward Price	A\$/US\$	0.0	0.0	0.0	0.0	0.0
<b>SH/HLDRS FUNDS</b>	<b>\$M</b>	<b>40.5</b>	<b>57.9</b>	<b>70.3</b>	<b>94.7</b>	<b>121.8</b>	Hedged Sales	%	0%	0%	0%	0%	0%
<b>RATIO ANALYSIS</b>						<b>AVERAGE DELIVERABLE PRICES (incorporates hedging and spot FX / metal prices)</b>							
EPS	¢	(3.3)	(0.7)	1.9	3.7	4.1	Ave. deliv. hedge price	A\$/t	0.0	0.0	20,551	22,430	23,343
PER	x	na	na	4.3	2.2	2.0	Ave. deliv. hedge price	A\$/lb	0.00	0.00	9.32	10.17	10.59
EPS Growth	%	na	na	+100	+100	10.9	<b>ASSUMPTIONS</b>						
CFPS	¢	(1.4)	(0.7)	3.5	5.9	5.7	Exchange Rate	A\$/US\$	1.02	0.90	0.89	0.86	0.85
PCFR	x	na	na	2.3	1.4	1.4	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	A\$/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	40.9	12.2	na	25.5	10 Yr Bond rate	%	3.29	4.02	3.75	3.38	3.38
Gearing ND/(ND+E)	%	41.3	29.0	10.8	na	20.3	Interest Rate Charged	%	3.79	4.52	4.25	3.88	3.88
Interest Cover	x	na	na	13.5	60.6	44.0	<b>VALUATION (WACC = 10%)</b>						
EBITDA Margin	%	na	na	34.8	41.2	43.3	Windarra-Cerberus	ASM				258.6	\$ 0.39
EBIT Margin	%	na	na	27.2	32.3	34.6	Exploration	ASM				10.0	\$ 0.02
Return On Assets	%	(7.7)	(2.7)	15.7	23.2	20.8	Corporate / Other	ASM				(21.6)	\$ (0.03)
Return On Equity	%	(33.0)	(8.2)	17.6	25.8	22.2	Net Cash (Debt)	ASM				(25.5)	\$ (0.04)
EBITDA per share	¢	(1.6)	(0.5)	3.7	6.8	7.5	<b>Total</b>					<b>221.5</b>	<b>\$ 0.34</b>
EBITDA multiple	x	(8.2)	(17.9)	2.2	1.2	1.1							
EV	\$M	81.6	77.4	62.3	33.0	84.8							
EV/EBITDA	x	(12.7)	(25.8)	2.5	0.7	1.7							
Eff Tax rate	%	0	0	30	30	30							

Source: Petra Capital

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