



## New Century Resources Limited (NCZ.ASX)

### Pure Play Zinc Offering Global Scale

#### Event:

- We initiate research on New Century Resources Ltd (NCZ.ASX).

#### Investment Highlights:

- New Century Resources** is a base metals developer about to declare commercial production, having successfully restarted zinc tailings processing at the Century Mine since August 2018, and recently completed refurbishment work at site.
- Top ten producer with global scale:** NCZ is in the top ten largest global zinc producers and will shortly finish scaling up to a 12Mtpa throughput operation producing 180-200ktpa zinc metal over life of mine.
- No further capex, and operations expected to be cash flow positive from June 2020 quarter and beyond.** NCZ has successfully completed refurbishment of the Century Mine, and does not expect further major capex, while operations are expected to be cash flow positive from this quarter and beyond.
- Improving throughput and recovery, and corresponding cost improvement, in successive quarters since restart.** Clearly evident operational nous as successive quarters have demonstrated increased mining, production, and improved recovery rates. Increased throughput and additional 35% production are expected to enable even lower unit costs, with target LOM C1 cash cost of US\$0.56/lb payable Zn.
- Fundamentals improving with global supply disruptions and retracement of treatment charges (TCs):** almost half of the top 15 global producers have had lockdown interruptions, while TCs have fallen steeply by almost 40% in the past month. The most recent C1 cash cost of US\$0.82/lb Zn for March 2020 was despite the adverse effects of thirteen year high treatment charges.
- Cash of \$64M (post raise), and debt of \$85M.** The recent \$51M capital raise provides ample liquidity buffer and introduces IGO to the register.

#### Earnings and Valuation:

- We forecast FY20e-FY22e NPAT of -\$22M, \$65M, and \$91M,** respectively. The company is targeting declaration of commercial production at June 2020 end.
- We have derived a valuation of \$0.50 per NCZ share,** supported by our NPV<sub>10</sub> for Century of A\$754M, with a LT zinc forecast of US\$1.10/lb. Our undemanding valuation is based on a ramp to 12Mtpa tailings reprocessing case by June 2020e, and assume conservative TC and recovery rate improvement.
- Four year low zinc price and thirteen year high treatment charges (TCs) have conspired against the zinc sector, but seeing beginning of sentiment change:** NCZ is heavily leveraged to any recovery in the zinc price and/or retracement of TCs, which has fallen steeply by almost 40% in the previous month.

#### Recommendation:

- We initiate coverage of NCZ with a Buy recommendation and price target of \$0.50/share,** in line with our DCF valuation. We note the current share price infers a \$0.90/lb Zn price over the LOM.
- Key catalysts for the stock** include: 1) production ramp; 2) achievement of C1 cost target of US\$0.56/lb and recovery milestones; 3) zinc price recovery; 4) retracement of treatment charges; 5) updates on expansion cases and exploration.

#### Disclosure

The analyst does not own NCZ securities. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 500,000 NCZ shares. Cranport Pty Ltd owns 7,000,000 NCZ shares. Refer to end of report for details.

**Foster Stockbroking acted as co-manager to the \$51.1M placement and entitlement offer of 341M NCZ shares at \$0.15/share in April 2020. Foster Stockbroking will receive fees for this service.**

#### Recommendation

Buy
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Previous	N/A
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Risk	High
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#### Price Target

\$0.50
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Previous	N/A
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#### Share Price (A\$)

\$0.175
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ASX Code	NCZ
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52 week low - high (A\$)	0.05-0.76
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#### Capital structure

Shares on Issue, post raise (M)	978.6
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Market Cap (A\$M)	171
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Net Cash/(Debt), A\$M, est.	-22
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EV (A\$M)	193
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12mth Av Daily Volume ('000)	289
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#### Y/e Jun A\$

	2019a	2020e	2021e	2022e
Sales, \$M	0.0	0.0	431.3	469.3
EBITDA, \$M	-11.8	-12.9	116.2	148.3
NPAT, \$M	-21.5	-21.6	65.0	91.4
EPS adj, c	-4.3	-3.2	6.6	9.3
PER, x	nm	nm	2.6	1.9

#### Board

Robert McDonald	Chairman
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Patrick Walta	Managing Director
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Nick Cernotta	Non-Executive Director
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Evan Cranston	Non-Executive Director
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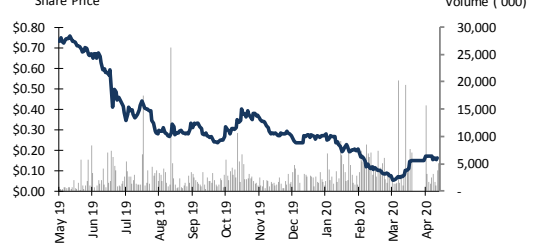
Bryn Hardcastle	Non-Executive Director
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Peter Watson	Non-Executive Director
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#### Major Shareholders

Independence Group	18.4%
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#### Share Price Graph



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