



New Century Resources Limited (NCZ.ASX)

Production Lift in Q4, Room for Improvement in Recovery

Event:

- FY20Q4 report; revised earnings, valuation, and PT.

Investment Highlights:

- Q4 metal production uplift a highlight, room for improvement in recovery rate:** zinc metal production of 34.4kt Zn metal was +21% and pre reported, however the plateauing of the recovery rates over the quarter to 45.3% indicates where management are focused on performance improvement going forward. Commercial production at Century was declared during the quarter.
- FY21e guidance is a baseline in our view:** the company has provided FY21e guidance of 140-160kt metal production with C1 cost range of US\$0.65-0.75/lb payable metal. We think this guidance is a baseline for FY21e operational performance and implies almost no recovery improvement and mining rate uplift on FY20a (46.7% and 10Mtpa mining exit rate).
- Zinc price recovering; TCs normalising:** Zn price is above US\$1.00/lb for the first time in almost six months, while TCs have stabilised and closer to long run averages (sub US\$200/t). The company notes QP adjustments for FY21Q1 to date are currently +\$7.3M, reflecting the potential for rapid reversal in the event of sustained Zn price improvement.
- Cash of \$40M and debt of ~\$83M (US\$60M).** FY20Q4 operating cash was a \$9M outflow, however QP adjustments were a drag at -\$8.3M. But for QP drag, century operations were effectively cash neutral.

Earnings and Valuation:

- We have revised FY20e-FY22e NPAT of -\$24M, \$48M, and \$83M, respectively (prior -\$22M, \$65M, and \$91M),** due to lower forecast zinc prices (-7%, -5%, and -5% in FY21-23e), offset by forecast AUD/USD changes (-1%, -2%, and -2%).
- We have lowered FSBe FY21e production forecast of 158kt Zn** (prior 177kt) and are now at the upper end of company guidance (140-160kt Zn). Similarly we have lowered mining rate and recovery rate to 10.6Mtpa and 50% (prior 11.8Mtpa and 52%). We note these are rebased expectations and represent eminently achievable operational targets in our view. We have also lowered our C1 cost forecast to US\$0.71/lb (prior US\$0.72/lb), partially offsetting the above.
- We have a decreased valuation for NCZ of \$0.48/share (prior \$0.50),** as a consequence of the changes above and an unchanged LT zinc forecast of US\$1.10/lb.

Recommendation:

- We maintain a Buy recommendation for NCZ with a decreased price target of \$0.48/share (prior \$0.50/share),** in line with our DCF valuation. We continue to hold the view the stock is attractively leveraged to any zinc price recovery, while the potential Goro acquisition is an ambitious opportunity to showcase management's turnaround execution.
- 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; 6) updates on potential Goro acquisition.

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 9,665,193 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 received fees for this service.

Recommendation	Buy
Previous	N/A
Risk	High
Price Target	\$0.48
Previous	\$0.50
Share Price (A\$)	\$0.215
ASX Code	NCZ
52 week low - high (A\$)	0.05-0.40
Capital structure	
Shares on Issue (M)	978.6
Market Cap (A\$M)	210
Net Cash/(Debt), A\$M, est.	-43
EV (A\$M)	254
12mth Av Daily Volume ('000)	3,219

Y/e Jun A\$	2019a	2020e	2021e	2022e
Sales, \$M	0.0	0.0	345.5	435.2
EBITDA, \$M	-11.8	-12.9	91.6	135.4
NPAT, \$M	-21.5	-24.0	47.7	83.1
EPS adj, c	-4.3	-3.7	4.9	8.5
PER, x	nm	nm	4.4	2.5

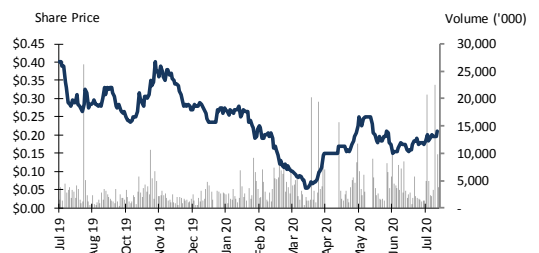
Board

Robert McDonald	Chairman
Patrick Walta	Managing Director
Nick Cernotta	Non-Executive Director
Bryn Hardcastle	Non-Executive Director
Peter Watson	Non-Executive Director

Major Shareholders

Independence Group	18.4%
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Share Price Graph



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