



New Century Resources Limited (NCZ.ASX)

Positive Cash Flow Start to FY21

Event:

- FY21Q1 report; revised earnings, valuation, and PT.

Investment Highlights:

- FY21 off to a positive cash flow start:** the company reported positive operating cash margin of \$12.8M and positive OCF of \$6.5M for FY21Q1a for the first time since restart; recovery exit rate in September to 48-50% was a highlight as Q1 zinc metal production and recovery rate were broadly flat QoQ reporting 33.6kt Zn metal, -2% QoQ and 45.3% recovery. C1 cost was +7% to US\$0.85/lb on unfavourable exchange rate movement.
- Stronger recovery exit rate and work plan to continue improvement trajectory:** ball mill circuit work has been completed, and the company now turns its attention to ultrafine milling and Jameson cell work, which are slated for remainder of FY21e to target 50-54% recovery. Ongoing recovery improvement will foreshadow increased mining rate at Century.
- Macro conditions continue to improve; stronger zinc price and falling TCs both tailwinds:** Zn price continues to strengthen with spot at US\$1.13/lb vs Q1 average of US\$1.06/lb, amid significant supply disruptions among other top global producers. Spot TCs are at US\$110/t and have fallen far from the peak of US\$300+/t since CY20 start. Both factors, in concert with improved recoveries at Century, should enable more robust cash generation in coming quarters.
- Unrestricted cash of \$34M and debt of ~\$75M (US\$53M) at FY21Q1 end.** The company paid down an additional ~\$6M (US\$4.65M) in October. NCZ also has an additional \$18M in restricted cash at quarter end.

Earnings and Valuation:

- We have revised FY21e-FY23e NPAT to \$31M, \$73M, and \$103M, respectively (prior \$48M, \$83M, and \$89M),** due to higher forecast zinc prices (0%, 4%, and 5% in FY21-23e), effectively more than offset by higher forecast AUD/USD (4%, 6%, 5%). We have an increased LT zinc forecast of US\$1.11/lb (prior US\$1.10/lb).
- We have lowered FSB e FY21e production forecast to 151kt Zn** (prior 158kt, company guidance 140-160kt, unchanged), as a result of a modest reduction in recovery rate 48% (prior 50%). We have revised mining rates for FY22-23e to 11.1Mt and 10.8Mt (prior 11.8Mt and 9.6Mt).
- We have an unchanged valuation for NCZ of \$0.48/share,** with higher forecast zinc prices offset by currency and revised recovery and production ramp profile. We view the latest update as demonstration of progress on improved recovery and provides further comfort for the achievement of its operational targets.

Recommendation:

- We maintain a Buy recommendation for NCZ with an unchanged price target of \$0.48/share,** in line with our DCF valuation. We continue to hold the view the stock is attractively leveraged to continued zinc price strength and continued execution of operational improvements.
- 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 improvement; 4) 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 2,000,000 NCZ shares. Cranport Pty Ltd owns 15,352,447 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	\$0.48
Share Price (A\$)	\$0.16
ASX Code	NCZ
52 week low - high (A\$)	0.05-0.40

Capital structure

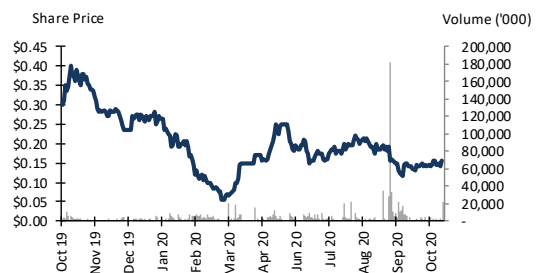
Shares on Issue (M)	978.6
Market Cap (A\$M)	157
Net Cash/(Debt), A\$M, est.	-23
EV (A\$M)	180
12mth Av Daily Volume ('000)	4,547

Y/e Jun AS	2020a	2021e	2022e	2023e
Sales, \$M	0.0	322.4	403.7	410.4
EBITDA, \$M	-5.6	67.7	120.8	160.9
NPAT, \$M	-8.1	31.1	72.8	102.6
EPS adj, c	-1.2	3.2	7.4	10.5
PER, x	nm	5.0	2.1	1.5

Board

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

Share Price Graph



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