



New Century Resources Limited (NCZ.ASX)

Power Interruptions Prevent Full Benefit of Positive Pricing

Event:

- FY21Q2 report; revised earnings, valuation, and PT.

Investment Highlights:

- Strong EBITDA from positive price effect, hoping for more improvement in operational metrics:** the company released its FY20Q2 quarterly, with the highlight being a 70% QoQ increase in adjusted EBITDA to \$22.4M. Average realised zinc price for the quarter was 12% stronger to US\$1.19/lb vs QoQ.
- Operational stability affected by power interruptions and weather:** Jameson cell work which is slated for FY21Q4 will help target 50-54% recovery. Zinc metal production was -4% QoQ to 32.4kt while recovery rate has stagnated at 45%. Power supply and weather interrupted continuous operation through Q2, though power supply has since been transferred, promising increased reliability.
- Macro conditions remain favourable; strong zinc price and falling TCs both remain tailwinds:** Spot TCs are at US\$85/t and have fallen far from the peak of US\$300+/t since CY20 start, with a reset to benchmark TC due for this quarter and applied retrospectively from CY21 start. The company recently hedged ~75% of FY21H2 sales at US\$1.20/lb. Both factors, in concert with improved recoveries at Century, should enable more robust cash generation in 2H.
- Unrestricted cash of \$51M and debt of ~\$58M (US\$48M) at FY21Q2 end.** The company paid down an additional US\$11M in January 2021. NCZ also has an additional \$19M in restricted cash at quarter end.

Earnings and Valuation:

- We have lowered FSB e FY21e production forecast to 135kt Zn** (prior 151kt, company guidance revised to lower end of 140-160kt), as a result of power interruptions during Q2. We have reduced FY22-23e production forecasts to 160kt and 162kt Zn (prior 173kt and 172kt) and recovery rates to 47%, 48%, and 50% (prior 48%, 52%, and 53%).
- We have revised FY21-FY23e NPAT to \$34M, \$67M, and \$81M** (prior \$31M, \$71M, and \$103M), due to lower forecast production and recovery rates partially offset by higher zinc prices in FY22-23e (+9% and +5%) and more than offset by higher zinc prices in FY21e (+11%). We have an unchanged LT zinc price of US\$1.11/lb.
- We have a decreased valuation for NCZ of \$0.45/share** (prior \$0.48), with lower recovery and mining rates, and slower production ramp profile, partially offset by higher forecast zinc prices. We continue to look for demonstration of progress in recovery and operational stability.

Recommendation:

- We maintain a Buy recommendation for NCZ with a decreased price target of \$0.45/share (prior \$0.48)**, in line with our DCF valuation. This assumes there will be ongoing step change improvement over coming quarters from a number of sources, including anticipated drop in benchmark TCs to reflect prevailing spot more closely, floor on pricing from hedging, and operational stability from transferred power supply and Jameson cell circuit upgrade.
- Key catalysts for the stock** include: 1) production ramp; 2) reducing C1 cost and achieving recovery milestones; 3) zinc price improvement; 4) benchmark reset 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 1,400,000 NCZ shares. Cranport Pty Ltd owns 12,135,503 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		\$0.45		
Previous		\$0.48		
Share Price (A\$)		\$0.19		
ASX Code		NCZ		
52 week low - high (A\$)		0.05-0.27		
Capital structure				
Shares on Issue (M)		978.6		
Market Cap (A\$M)		186		
Net Cash/(Debt), A\$M, est.		26		
EV (A\$M)		160		
12mth Av Daily Volume ('000)		5,156		
Y/e Jun A\$				
Sales, \$M	2020a	2021e	2022e	2023e
EBITDA, \$M	0.0	324.6	412.0	409.8
NPAT, \$M	-5.6	72.3	109.6	128.1
EPS adj, c	-8.1	34.3	67.4	80.8
PER, x	-1.2	3.5	6.9	8.3
	nm	5.4	2.8	2.3

Board

Robert McDonald	Chairman
Patrick Walta	Managing Director
Nick Cernotta	Non-Executive Director
Kerry Gleeson	Non-Executive Director
Peter Watson	Non-Executive Director

Share Price Graph



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