



New Century Resources Limited (NCZ.ASX)

Blame It On The Rain

Event:

- FY21Q3 report; revised earnings, valuation, and PT.

Investment Highlights:

- Solid EBITDA from positive prices and reset TCs, though again, hoping for more improvement in operational metrics:** adjusted EBITDA of \$18.6M assisted by average zinc price for the quarter which was 3% stronger to US\$1.25/lb vs QoQ and reset 2021 TC benchmark to US\$159/t (from US\$300/t).
- Operational stability affected by wet weather:** weather affected both mining and recovery rates, while the Jameson cell start slated for FY21Q4 to help target 50-54% recovery can't come soon enough. Q3 zinc metal production was -6% QoQ to 30.4kt while recovery remained at 45%.
- Macro conditions remain favourable; strong zinc price and falling TCs both remain tailwinds:** Spot TCs are at US\$70/t and are far removed from the peak of US\$300+/t since CY20 start. CY21 benchmark TC was recently reset to US\$159/t (-47% vs 2020 US\$300/t) and will be applied retrospectively from CY21 start. The company also recently hedged the remainder of FY21 sales at US\$1.20/lb. Both factors should facilitate continued cash generation in 2H.
- Cash of \$40M (incl. \$19M restricted cash) and debt of ~\$37M (US\$29M) at FY21Q3 end.** NCZ paid down \$22M of debt in Q3, with US\$14M due in CY21H2.

Earnings and Valuation:

- We have lowered FSBe FY21e production forecast to 130kt Zn metal** (prior 135kt) after the company lowered FY21e production guidance to 127-132kt (prior lower end of 140-160kt). We have also lowered recovery to 45% (47%), as a result of Q2 and Q3 interruptions. We have increased FY21e C1 cost to US\$0.85/lb (prior US\$0.82/lb); NCZ raised its FY21e C1 cost range to US\$0.87-0.92/lb from US\$0.65-0.75/lb. We have unchanged FY22-23e production forecasts of 160kt and 162kt Zn and recovery rates to 48% and 50% for now.
- We have revised FY21-FY23e NPAT to \$21M, \$72M, and \$83M** (prior \$34M, \$67M, and \$81M), due to lower forecast FY21e production and recovery rates partially offset by higher zinc prices. We have made minor changes to FY21-23e zinc price forecasts (+1%, +2%, and +1%) and unchanged LT zinc price of US\$1.11/lb.
- We have a decreased valuation for NCZ of \$0.41/share** (prior \$0.45), 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 from the imminent Jameson cell upgrade.

Recommendation:

- We maintain a Buy recommendation for NCZ with a decreased price target of \$0.41/share (prior \$0.45)**, in line with our DCF valuation. We continue to look for mining and recovery rate improvements especially from the pending Jameson cell upgrade. We note ongoing favourable market conditions, including continued zinc price strength and recently reset TC benchmark and low spot TCs.
- Key catalysts for the stock** include: 1) operational performance including production and recovery improvements; 2) reducing C1 cost and achieving recovery milestones; 3) constructive zinc prices; 4) supportive spot TCs; 5) updates on expansion cases and exploration.

Disclosure

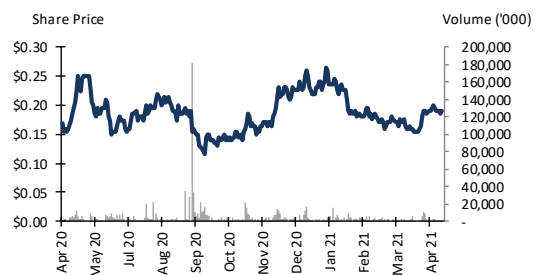
The analyst does not own NCZ securities. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 400,000 NCZ shares. Cranport Pty Ltd owns 9,635,503 NCZ shares. Refer to end of report for details. **Foster Stockbroking acted as co-manager to the \$51.1M placement and entitlement 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	\$0.41			
Previous	\$0.45			
Share Price (A\$)	\$0.17			
ASX Code	NCZ			
52 week low - high (A\$)	0.11-0.27			
Capital structure				
Shares on Issue (M)	1,209.9			
Market Cap (A\$M)	206			
Net Cash/(Debt), A\$M, est.	3			
EV (A\$M)	202			
12mth Av Daily Volume ('000)	4,799			
Y/e Jun A\$	2020a	2021e	2022e	2023e
Sales, \$M	0.0	314.4	420.5	412.8
EBITDA, \$M	-5.6	62.1	118.1	131.2
NPAT, \$M	-8.1	21.4	72.4	83.0
EPS adj, c	-1.2	1.9	6.5	7.4
PER, x	nm	8.9	2.6	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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