

29 January 2021

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## IGO Limited

### Materials

#### UNDERPERFORM

**IGO A\$6.71**
**TARGET PRICE A\$5.36**

IGO's Principal Activity is the nickel, copper and cobalt mining and processing at the Nova Operation, non-operator gold mining from the Company's 30% interest in the Tropicana Operation and ongoing mineral exploration in Australia and overseas.

#### Company Data

Number of shares	660.3M
Market Capitalisation	\$ 4483.5
Free float (%)	81.3
12-month high/low	\$7.57/\$3.37
Average Daily Turnover (\$m)	8.8325
% S&P/ASX200	0.24
DDM Ranking	347
% All Ordinaries	0.20
GICS Industry Group	Materials

Source: FactSet, Barclay Pearce Capital

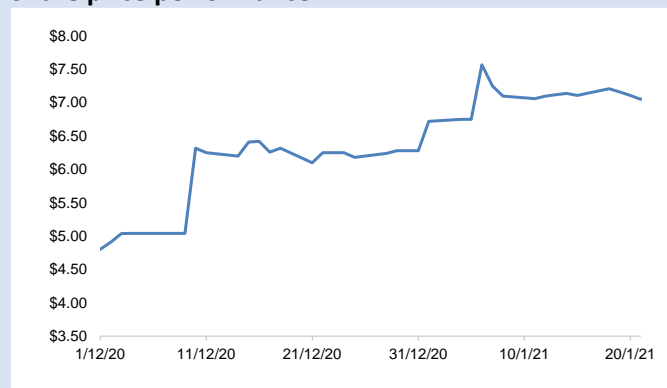
#### Earnings Summary (AUD)

Year end Adjusted EPS - c	2020A	2021F	2022F	2023F
Revenue (\$M)	892.4	864.0	927.1	947.0
EBITDA (\$M)	459.3	382.7	427.7	434.0
Reported NPAT (\$M)	155.0	132.5	181.9	199.1
Adjusted NPAT (\$M)	154.5	130.9	172.2	187.7
Reported EPS (c)	25.9	19.2	25.0	26.1
Adjusted EPS (c - FD)	25.9	19.1	23.9	25.2
Adjusted EPS growth (%)	103.5	(26.3)	25.4	5.7
Adjusted P/E (x)	26.3	35.6	28.4	26.9
Dividend (c/sh)	10.9	8.8	9.1	10.6
Gross yield (%)	2.3	2.1	2.1	2.5
Net yield (%)	1.6	1.4	1.5	1.7
ROIC (%)	10.5	8.1	9.2	10.7

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195 and Capital IQ.

#### Share price performance.



Source: FactSet, Barclay Pearce Capital

## 1H21 Results Presentation

On 28<sup>th</sup> January 2021, IGO Limited (IGO) provided a trading update for 1H21 with the following highlights:

	Units	1Q21	2Q21	QoQ
Revenue and Other Income	A\$M	226.6	235.9	▲4%
Underlying EBITDA <sup>1</sup>	A\$M	121.4	120.9	-
Net Profit After Tax (NPAT)	A\$M	45.4	8.8	▼81%
Net Cash from Operating Activities	A\$M	109.6	132.0	▲20%
Underlying Free Cash Flow <sup>2</sup>	A\$M	84.5	112.7	▲33%
Cash	A\$M	508.5	1,186.1 <sup>3</sup>	▲133%
Debt	A\$M	-	-	-
Net Cash	A\$M	508.5	1,186.1 <sup>3</sup>	▲133%

#### Nova

- Steady HoH revenue, lower payable metal, higher copper price and lower nickel price; and
- Lower cash costs of A\$2.18/lb (1H20: A\$2.51/lb) positively supported underlying EBITDA;
- Lower HoH production primarily driven by lower milled grades; and
- Cash costs benefited from higher copper prices which averaged A\$9,373/t in 1H21 (vs 1H20: A\$8,472t) and improved nickel offtake payability terms.

#### Tropicana

- Lower HoH revenue driven by lower gold ounces sold;
- 1H21 production 15% lower than 1H20 due to higher proportion of mill feed sourced from stockpiles, and cessation of grade streaming in 1H20; and
- Investment in Havana cutback during FY21 proceeding well, with access to open pit ore expected progressively from 1Q22 onward.

#### Transformational Investment

- IGO to acquire an indirect 25% interest in Greenbushes and a 49% interest in Tianqi's Kwinana Lithium Hydroxide Refinery, both located in WA;
- US\$1.4bn purchase price to be paid at completion, expected to occur in the June 2021 quarter; and
- Funding de-risked through A\$766M equity raising, A\$1,100M new debt facilities and existing cash.

## Earnings changes

For the half year results, IGO reported a 3% decline in revenue from the prior year. IGO also reported a 45% decline in NPAT. Hence, we have made negative earnings revision of 10% for current and future periods to reflect these losses and no adjustments to revenue.

## Valuation

We are initiating on IGO with a 12-month price target of \$5.36 and a UNDERPERFORM recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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**NR** – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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### Valuation Methodology

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Speculative Buy	0.4%	( 100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	( 0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	( 0.0% of stocks with recommendations are Barclay Pearce clients)