SCP EQUITY RESEARCH

Magna Mining, 13 September 2024

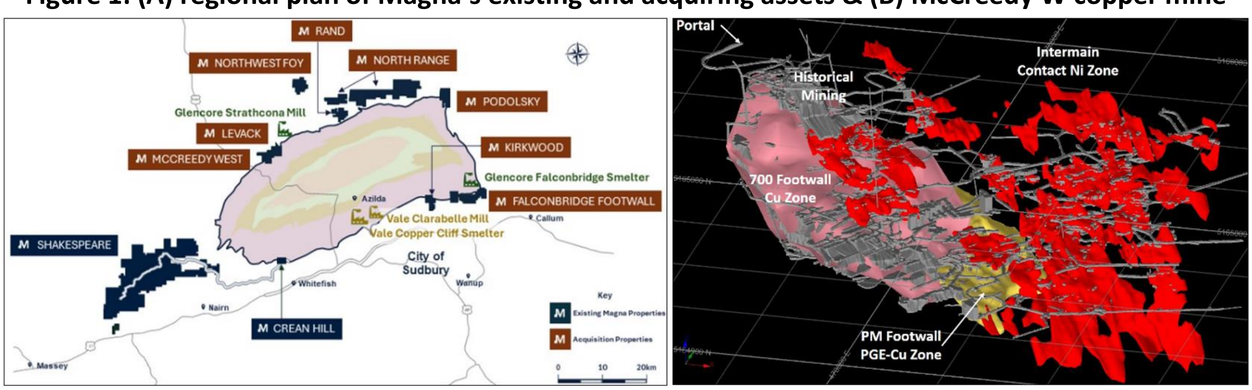
Ticker: NICU CN	**2Q24 Cash:** C$4m	**Project:** Sudbury Assets
Market cap: C$204m	**Price:** C$1.20/sh	**Country:** Canada, ON
REC. (unc): BUY	*TARGET (+1.65): C$3.25/sh*	*RISK RATING (from SPEC.): HIGH*

Very simply, we think yesterday's KGHM asset acquisition is entirely transformative for Magna. Key here is that the acquired Sudbury assets will be back in the hands of the original exploration and development team that first discovered and put them into production >15 years ago– providing unparalleled upside in our view. Further, ***Magna will immediately become a copper producer*** *and should benefit from i) a near-term re-rate with copper producers/developers notably trading up to 1.8xNAV, ii) FCFs to support ongoing capital development and exploration activities, and iii) the synergies of acquiring an operating mine (incl. skilled workforce/environmental group/H&S) useful for developing the company's growth prospects (e.g. operating three mines in 3-5 years). While subject to standard conditions, the acquisition close could come as early as 4Q24, lifting global resources from 56mt @ 1.3% NiEq (713kt contained) to SCPe 82Mt @ 1.5% NiEq (1.3Mt contained; incl. historic), only a discovery away from rivalling Glencore's 2.0Mt contained NiEq (all @ spot), something we think is likely given the slew of high-caliber asset pick-up's yesterday with plenty of juice left to squeeze, making Magna one of few junior high-grade >1.0Mt contained nickel sulphide projects globally.*

We expect guidance on production, expansion opportunities and costs to be given after closing. For now, we update for 2Q24 cash and shares, add producing McCreedy West Mine (Dec23 43-101) to our valuation at a nominal 5% in-situ value and incorporate Historic Resources (Dec22) to our resources excluding inventory at 1% in-situ, and apply a 0.7x NAV multiple until the deal closes, leaving room for upside. As such, ***we maintain our BUY rating and lift our price target from C$1.60/sh to C$3.25/sh at 0.7xNAV$_{7\%-9.50}$*** *for a C$748m Crean Hill only UG and OP scenario. Magna trades cheaply at just 0.2xNAV well below the peer group – this is where the fun starts.*

Management continues to 'do what they say' and execute on their objectives at an extreme pace – becoming a producing company in ~2Y post step-change Crean Hill acquisition and maintaining their trajectory towards being a multi-asset producer – making them the only junior critical minerals producer in Sudbury – one of the best mining jurisdictions globally. Upcoming news flow remains thick with results from drilling and surface bulk sample processing tests, kicking-off UG advanced exploration, a PEA/MRE update, and transaction close all ahead, with key next step securing funding ahead of test mining.

Figure 1: (A) regional plan of Magna's existing and acquiring assets & (B) McCreedy W copper mine



Source: Magna Mining

Developer to copper producer with KGHM asset portfolio acquisition; SCPe PT up to C$3.25/sh

Yesterday, Magna entered into a definitive share purchase agreement with FNX Mining, a subsidiary of KGHM, to acquire a portfolio of assets in the Sudbury Basin. These include the **McCreedy West operating copper mine** (2023 prod 317.7kt @ 3.4% CuEq (49-15-12-12-11-1; Cu-Pd-Pt-Ni-Au-Co)) with existing

Dec23 43-101 MRE of **9.5Mt @ 2.4% NiEq (4.1% CuEq)** (38-31-10-9-9-2-1 Ni-Cu-Au-Pt-Pd-Co-Ag), past-producing Levack mine (C&M since 2019), Podolsky Mine (C&M since 2013), and Kirkwood Mine as well as Falconbridge Footwall (81.41%), Northwest Foy (81.41%), North Range and Rand exploration assets. Historical resources from Levack, Podolsky, Kirkwood total 17.0Mt @ 2.0% NiEq (3.4% CuEq).

As part of the transaction, Magna will acquire the outstanding shares of Project Nikolas Company Inc. (PNCI) from FNX Mining (KGHM sub) for C$5.3m cash and C$2.0m Magna shares on close, a deferred payment of C$2.0m on 31 Dec 2026, and future contingent payments up to C$24.0m. A 4% NSR royalty from FNX in place with right to buy back 3% for cash. To fund the transaction, Magna is negotiating a C$10.0m three-year Term Loan Facility and a C$10.0m Letter of Credit with FCDQ. Magna will assume PNCI reclamation liabilities of C$9.9m. The transaction is subject to conditions with closing date expected in 4Q24-1Q25.

Why we like Magna Mining Inc

1. High grade UG >2% NiEq complimented by permitted pits for scale
2. Vale 'ore sale' and Glencore 'toll-mill' agreements enables fast tracked production / advanced exploration
3. Tier-1/globally significant Ni sulphide district near hungry mills/smelters
4. Best in class Sudbury based technical team (formerly FNX Mining)

Catalysts

- 2024: 25,000m drill program and results
- 3Q24: MRE/PEA update
- 2H24: UG portal development
- 4Q24-1Q25: Acquisition close for select KGHM assets

Research

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Ticker:	NICU CN	Price / mkt cap:	C$1.2/sh, C$204m	P/NAV today:	0.26x	Country:	Canada, Ontario
Author:	B Gaspar	Rec / PT:	BUY, C$3.25/sh	1xNAV7%:	C$4.65/sh	Asset:	Sudbury

Commodity price	CY22E	CY23E	CY24E	CY25E	CY26E
Ni price (US$/t)	20,944	20,944	20,944	20,944	20,944
Ni price (US$/t, payable)	11,352	11,352	11,352	11,352	11,352
Share data (m)	**Basic**	**FD**	**FF FD**		
Shares (m)	170.4	209.8	329.0		

SOTP *project* valuation*	C$m	o/ship	NAVx	C$/sh
Crean Hill NPV (build start)	633	100%	1.00x	3.02
McCreedy West nominal @ 5% in-situ	200	100%	1.00x	0.96
Resources ex inventory @ 1% in-situ	122	100%	1.00x	0.58
Cash 2Q24	4	100%	1.00x	0.02
Cash from ITM options/warrants	16	100%	1.00x	0.08
1XNAV C$	**976**			**4.65**
**Build start, ex fin. cost + G&A, dil. for optns not build*			*P/NAV today:*	0.26x

Asset value: 1xNPV project (C$m, ungeared)*	CY22E	CY23E	CY24E	CY25E	CY26E
Asset NPV (C$m)	14,944	17,944	20,944	23,944	26,944
9.0% discount	319	415	512	608	704
7.0% discount	407	520	633	746	859
5.0% discount	520	654	787	921	1,054
Ungeared project IRR:	29%	35%	41%	47%	53%
Asset NPV (C$/sh)	14,944	17,944	20,944	23,944	26,944
9.0% discount	1.52	1.98	2.44	2.90	3.36
7.0% discount	1.94	2.48	3.02	3.56	4.09
5.0% discount	2.48	3.12	3.75	4.39	5.02

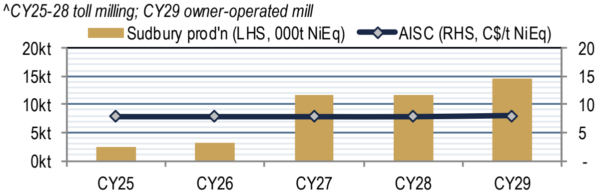
**Project level NPV, excl finance costs and central SGA, discounted to build start*

Group valuation over time^	Sep-24	Sep-25	Sep-26	Sep-27	Sep-28
Project NPV (C$m)	685	762	787	868	1,014
McCreedy West nominal @ 5% in-situ	200	200	200	200	200
Resources ex inventory @ 1% in-situ	122	122	122	122	122
Central G&A and finance costs	(120)	(110)	(101)	(87)	(62)
Net cash prior quarter	4	(41)	76	31	(80)
Cash from ITM options/warrants	16.4	16.4	16.4	16.4	16.4
Total NAV (C$m)	907	949	1,101	1,150	1,210
FF FD share count (m)	*210*	*210*	*284*	*284*	*284*
1xNAV7%/sh FF FD (C$/sh)	4.33	4.53	3.88	4.05	4.26

Exit value: 1xNAV/sh company @ 2025 first production (C$, geared)^					
1xNAV (C$m)	14,944	17,944	20,944	23,944	26,944
9.0% discount	527	682	837	989	1,141
7.0% discount	608	779	949	1,118	1,286
5.0% discount	709	900	1,090	1,278	1,466
1xNAV (C$/sh)	14,944	17,944	20,944	23,944	26,944
9.0% discount	2.51	3.25	3.99	4.72	5.44
7.0% discount	2.90	3.71	4.53	5.33	6.13
5.0% discount	3.38	4.29	5.20	6.10	6.99

Production (Y1 from 2Q25)	CY25	CY26	CY27	CY28	CY29
SCPe production (000kt NiEq)^	2.4	3.2	11.7	11.7	14.6
AISC Co-prod. (US$/lb Ni)*	8	8	8	8	8

^CY25-28 toll milling; CY29 owner-operated mill



*Source: SCP estimates, *AISC done on ore selling NSR*

Resource/Inventory @ SCP LT px	Mt	NiEq %	Sudbury	Mt	NiEq %
Shakespeare pit reserve	12 Mt	0.7%	Pit M&I&I	34 Mt	0.8%
SCPe Crean Hill OP invent'y	6 Mt	0.7%	UG M&I&I*	48 Mt	1.7%
SCPe Crean Hill UG invent'y	11 Mt	2.1%	Total*	82 Mt	1.4%
Total	29 Mt	1.2%	**incl. Historic KGHM MRE*		

Funding: uses		Funding: sources	
Staged build capex Y3 (C$m)	304	Cash+pre prod'n ITM op (C$m)	6
Exploration (C$m)	8	Asset level SCPe debt (C$m)	198
UG dev. capex (C$m)	56	SCPe expansion equity (C$m)	107
SCPe G&A+fin. cost (C$m)	5	SCPe pre-build equity (C$m)	65
SCPe FCF Y1-2 (C$m)	(21)	Total sources (C$m)	375
Total uses: group (C$m)	353	*Buffer:*	23

Ratio analysis	CY22E	CY23E	CY24E	CY25E	CY26E
Shares out (m)	146.9	163.4	170.4	170.4	244.4
EPS (Cc/sh)	-	-	-	1.9	5.2
CFPS before w/c (C$/sh)	-	-	-	-	-
EV (C$m)	170.1	185.2	228.9	241.0	228.2
FCF yield (%)	-	-	-	-	-
Income statement	**CY22E**	**CY23E**	**CY24E**	**CY25E**	**CY26E**
Revenue (C$m)	-	-	-	50.9	67.9
COGS (C$m)	-	-	-	19.5	26.0
Gross profit (C$m)	**-**	**-**	**-**	**31.4**	**41.9**
G&A (C$m)	0.9	3.4	5.8	6.3	4.0
Exploration (C$m)	1.1	7.8	10.9	11.0	11.0
Finance costs (C$m)	-	0.4	0.3	0.4	0.8
Tax (C$m)	-	-	-	9.2	12.2
Other (C$m)	(0.0)	(1.7)	(0.7)	1.2	1.3
Net income (C$m)	**(2.0)**	**(9.9)**	**(16.3)**	**3.3**	**12.6**
Cash flow statement	**CY22E**	**CY23E**	**CY24E**	**CY25E**	**CY26E**
EBITDA (C$m)	(1.9)	(10.3)	(16.2)	13.2	26.0
Add share based (C$m)	0.0	1.5	0.9	0.9	0.9
Net change wkg cap (C$m)	0.2	0.3	(0.8)	8.8	-
Cash flow ops (C$m)	**(2.2)**	**(10.6)**	**(15.9)**	**(4.4)**	**14.0**
PP&E - build + sust. (C$m)	(0.0)	(0.1)	(20.0)	(7.8)	(18.9)
PP&E - expl'n (C$m)	(0.1)	-	-	-	-
Cash flow inv. (C$m)	**(0.1)**	**(0.1)**	**(20.2)**	**(7.8)**	**(18.9)**
Share issue (C$m)	-	18.4	-	-	106.6
Debt draw (repay) (C$m)	-	-	(0.0)	-	49.5
Cash flow fin. (C$m)	**(0.0)**	**15.4**	**0.8**	**-**	**156.0**
Net change in cash (C$m)	(2.1)	4.7	(35.3)	(12.2)	151.1
Balance sheet	**CY22E**	**CY23E**	**CY24E**	**CY25E**	**CY26E**
Cash (C$m)	6.2	10.9	(24.4)	(36.6)	114.5
Acc rec. + invet. (C$m)	1.4	1.8	2.5	10.4	10.4
PP&E & expl'n (C$m)	0.1	0.1	37.6	45.1	63.5
Total assets (C$m)	**7.7**	**12.8**	**15.7**	**18.9**	**188.4**
Debt (C$m)	0.0	-	-	-	49.5
Accounts payable (C$m)	1.7	1.6	3.1	2.1	2.1
Others (C$m)	6.9	11.9	(22.9)	(27.1)	124.0
Total liabilities (C$m)	5.1	5.4	5.5	4.5	54.0
Shareholders' equity (C$m)	32.5	45.8	47.0	47.9	155.3
Reserves (C$m)	3.2	4.4	4.9	4.9	4.9
Retained earnings (C$m)	(33.0)	(42.9)	(41.7)	(38.4)	(25.8)
Liabilities + equity (C$m)	**7.7**	**12.8**	**15.7**	**18.9**	**188.4**

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HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	50

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