

# Polymet Mining

## SDEIS completed and released

**PolyMet Mining achieved a key milestone in its NorthMet environmental permitting initiative when the EPA issued an EC-2 rating on its environmental impact statement (SDEIS) on 13 March 2014. PolyMet's management anticipates securing its environmental permits for NorthMet by late calendar Q115. We have updated our forecasts and valuation.**

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (US\$)	DPS (US\$)	P/E (x)	Yield (%)
01/12	0.0	(3.1)	(0.02)	0.0	N/A	N/A
01/13	0.0	(4.5)	(0.02)	0.0	N/A	N/A
01/14e	0.0	(6.4)	(0.03)	0.0	N/A	N/A
01/15e	0.0	(10.0)	(0.03)	0.0	N/A	N/A

Note: \*PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

## NorthMet receives favourable EPA rating

The EPA has issued an EC-2 rating for PolyMet's NorthMet project supplemental draft EIS. The EPA review provides guidance to co-lead agencies for enhancements to finalise the environmental review process. The rating is the second highest of four possible ratings, with the highest reserved for conservation-related projects. The 90-day public comment period for the supplemental draft EIS ended on 13 March 2014. Management has stated that the three public meetings held on the SDEIS were well attended with strong support for the project, especially from the local community near the project site.

## Permitting expected by late calendar Q115

The 90 days of public comment on the EIS has ended. PolyMet's management anticipates that by the end of CY14 the co-lead agencies will review and incorporate the comments into the final EIS. Based on management's projections, we believe PolyMet should receive its environmental permits by late calendar Q115.

## Financials: Strong balance sheet

Cash of US\$40.5m at 31 October should provide sufficient funds until the expected receipt of final project permits in late Q115. We assume US\$365m of the US\$450m project construction capital can be debt funded, based on existing assets providing security and the offtake agreement with Glencore providing comfort to lenders. We further forecast the balance will be funded by a US\$85m equity raise.

## Base case valuation: US\$477m

We have updated the valuation for our revised funding assumptions as above and include shares, options and convertible debt dilution as at 31 October 2013. There is no change to our underlying valuation, but we revise our valuation based on a higher assumed share issue price of US\$1.30/share, reflecting the recent strength in PolyMet's share price. Our base case valuation is US\$477m, or \$1.48 per share and US\$1.3bn or US\$3.93 per share based on its likely expansion.

Financial and permitting update

Metals & mining

15 April 2014

**Price** **US\$1.41**  
**Market cap** **US\$388m**

Net cash (US\$m) at 31 October 2013	4.7
Shares in issue	275.0m
Free float	70%
Code	PLM
Primary exchange	NYSE
Secondary exchange	TSX

### Share price performance



%	1m	3m	12m
Abs	(4.1)	51.6	46.5
Rel (local)	(3.5)	52.3	27.2
52-week high/low	US\$1.5	US\$0.7	

### Business description

PolyMet Mining Corporation is a junior mining company focused on developing the 100%-owned copper-nickel-precious metals NorthMet property in Minnesota. We look for it to secure its environmental permit by early 2015 and complete construction by mid-2016.

### Next events

EIS completed	Q414
Project construction completed	Q216

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## **Development schedule – permits expected late calendar Q115**

The 90-day public comment period for the supplemental draft EIS has ended. The co-lead agencies are now reviewing and will respond to the comments received and incorporate substantive comments into the final EIS. They will then publish the final EIS and the EPA will publish a Notice of Availability in the Federal Register. We believe the final EIS will be completed before the end of calendar Q414.

The final study will be put on public notice, but comments are not invited during this period. The EIS forms the basis for a formal Record of Decision/Adequacy Decision by the Federal and state agencies respectively. Based on these formal decisions, the federal permits, including the 404 Wetland Permit, can be issued. The land exchange can proceed and the state can issue various state permits. We believe all of these permits should be issued by the end of calendar Q115.

Management is already working on the construction financing. The project has several advantages from a banking perspective: the existing infrastructure and the collateral value of the current Erie Plant, the US location and the credibility derived from the relationship with Glencore. Management expects to have the construction financing committed, subject to receipt of permits, around the same time as publication of the final EIS, toward the end of CY14.

This would enable the company to break ground and start construction promptly, on receipt of permits. We believe construction of the NorthMet project will take 15-18 months and should be completed between late June and September 2016, with full production (using one-third of the existing capacity of the Erie Plant) at the beginning of CY17. PolyMet will need to secure approximately 20 state and Federal environmental permits.

## **Strong balance sheet, Glencore strategic relationship**

PolyMet has a strong balance sheet with US\$40.5m in cash as of 31 October 2013 and US\$35.8m in debt. This should carry PolyMet through the permitting process. The January 2013 technical report projected NorthMet Phase I capital spending at US\$312m, which we estimate at US\$450m, adjusted for scope changes and inflation. For the purposes of our model, we assume PolyMet will finance the project with a net US\$85m in equity and US\$365m in debt.

## **Valuation: Polymetallic project with a low operating cost**

We use a DCF model to value PolyMet's equity. Our base case valuation is US\$477m or US\$1.48/share undiluted or US\$1.45/share fully diluted. Our DCF valuation uses a 10% discount rate, a 20-year mine life and long-term price assumptions of US\$2.96/lb for copper and US\$10.14/lb for nickel. We assume a US\$450m capital cost with US\$80m financed with equity at US\$1.30/share and US\$365m funded with debt. No value is ascribed to the unused resource. Our upside valuation, based on an expansion to 90,000t/d – which we believe is quite likely – and at an additional capital cost of US\$400m is US\$1,267m or US\$3.93/share, or US\$3.48/share assuming the same US\$85m equity raise.

**Exhibit 1: Financial summary**

	US\$m	2012	2013	2014e	2015e
31-January		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		0.0	0.0	0.0	0.0
Cost of Sales		0.0	0.0	0.0	0.0
Gross Profit		0.0	0.0	0.0	0.0
EBITDA		(2.7)	(3.6)	(5.0)	(4.8)
Operating Profit (before amort. and except.)		(2.7)	(3.7)	(5.0)	(4.8)
Intangible Amortisation		0.0	0.0	0.0	0.0
Exceptionals		0.1	0.0	(0.0)	0.0
Other		(0.7)	(2.2)	(0.6)	(0.7)
Operating Profit		(3.4)	(5.8)	(5.7)	(5.5)
Net Interest		(0.4)	(0.8)	(1.4)	(5.1)
Profit Before Tax (norm)		(3.1)	(4.5)	(6.4)	(10.0)
Profit Before Tax (FRS 3)		(3.7)	(6.6)	(7.1)	(10.6)
Tax		0.7	0.0	0.0	0.0
Profit After Tax (norm)		(2.5)	(4.4)	(6.4)	(9.9)
Profit After Tax (FRS 3)		(3.0)	(6.6)	(7.1)	(10.6)
Average Number of Shares Outstanding (m)		160.4	178.9	235.8	283.2
EPS - normalised (US\$)		(0.02)	(0.02)	(0.03)	(0.03)
EPS - normalised and fully diluted (US\$)		(0.02)	(0.02)	(0.03)	(0.03)
EPS - (IFRS) (US\$)		(0.02)	(0.04)	(0.03)	(0.04)
Dividend per share (US\$)		0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A
<b>BALANCE SHEET</b>					
Fixed Assets		170.7	226.4	247.5	303.2
Intangible Assets		0.0	6.0	6.0	6.0
Tangible Assets		170.7	220.4	241.5	297.2
Investments		0.0	0.0	0.0	0.0
Current Assets		18.9	9.7	36.4	403.4
Stocks		0.0	0.0	0.0	0.0
Debtors		0.4	0.8	1.4	1.4
Cash		17.5	8.1	34.0	401.1
Other		1.0	0.8	1.0	1.0
Current Liabilities		(2.5)	(7.1)	(36.3)	(4.3)
Creditors		(2.5)	(7.1)	(4.3)	(4.3)
Short term borrowings		0.0	0.0	(32.0)	0.0
Long Term Liabilities		(54.7)	(86.1)	(51.9)	(398.7)
Long term borrowings		(32.7)	(34.5)	(4.2)	(350.1)
Other long term liabilities		(22.0)	(51.7)	(47.7)	(48.7)
Net Assets		132.4	142.9	195.7	303.6
<b>CASH FLOW</b>					
Operating Cash Flow		(3.0)	(1.1)	(8.0)	(4.7)
Net Interest		(0.0)	(0.0)	(0.0)	(4.1)
Tax		0.0	0.0	0.0	0.0
Capex		(19.6)	(16.3)	(24.4)	(55.0)
Acquisitions/disposals		3.5	(2.1)	0.0	0.0
Financing		30.7	10.1	58.4	85.0
Dividends		0.0	0.0	0.0	0.0
Net Cash Flow		11.6	(9.4)	26.0	21.1
Opening net debt/(cash)		25.8	15.2	26.4	2.1
HP finance leases initiated		0.0	0.0	0.0	0.0
Other		(1.0)	(1.8)	(1.7)	32.0
Closing net debt/(cash)		15.2	26.4	2.1	(51.0)

Source: PolyMet Mining accounts, Edison Investment Research

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