

Ivanhoe Mines Ltd. | Natural Resources

Can't have an electric future without copper



Stock Rating
Overweight

Industry View
In-Line

Price Target
\$14.00

Ivanhoe Mines is a Canadian mining company that is focused on developing its three projects: (1) Kamoakakula & Western Foreland copper project in the DRC, (2) Platreef PGMs, copper, nickel & gold project in South Africa, and (3) Kipushi zinc, copper, germanium, & silver project in the DRC. Overall, the company appears well funded and management expects to finance the expansions at Kamoakakula, its principal project, using internally generated cash flows from the project's operations. Favourable commodity market conditions for copper have in part allowed the company to accelerate expansion and exceed its expectations for the speed of development in Kamoakakula's phase one production plan. We expect the same pace of execution to persist for phases two and three.

- Investment thesis.** We believe investors in Ivanhoe Mines will benefit from secular demand growth for copper alongside increasing headwinds for the development of new copper projects and supply. We estimate that global copper demand will grow at 4.5% CAGR between 2020 and 2030. In the last two decades, the total annual tonnage of new copper discoveries has significantly declined despite increased exploration budgets by miners over the same period. Factors that will impede the development of new copper projects to meet growing demand include (1) the depletion of the world's highest-grade deposits making projects less economical, (2) a lack of discoveries pushing mining explorations into areas like Latin America and Africa which have less favourable tax codes and higher political risks, (3) increasing ESG constraints which will limit the ability of miners to 'cut corners' to accelerate the development of new projects, and (4) the increasingly lengthy time requirements for the development of new mines.
- Valuation.** Our \$14.00 price target is based on a NAV valuation approach using an 8.52% discount rate. We use a 50/50 weighted average between our base/bull case copper price estimates. The base case assumes prices will remain at current levels over the long term and the bull case assumes copper prices will continue to rise over a prolonged period of supply imbalance.

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Ivanhoe Mines Ltd. (TSX:IVN)

Stock Rating	Overweight
Industry View	In-Line
Price Target	\$ 14.00
Last close price	\$ 10.32
Curr. Mkt Cap (mm)	\$ 12,483
52-Week Range	\$6.06-10.59

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- **Risks & Catalysts.** Catalysts: (1) Exploration results. Ivanhoe Mines is planning to have extensive drilling operations in the Western Forelands in 2022. The Western Foreland territory is adjacent to the Kamoakakula project and could feature similar high-grade copper deposits. If similar deposits are discovered, a significant revaluation to the upside could be warranted. (2) Renewable energy transition. Ivanhoe Mines will benefit from secular trends towards a renewable energy future which will create higher demand for copper. (3) Achieving phase of steady production. Achieving steady-state production in remaining expansion projects will de-risk to some degree the stock from execution risks and allow management to begin paying dividends to shareholders. Risks: (1) Operations in the Democratic Republic of the Congo. There are several risks of doing business in the DRC. We believe that some of these risks are mitigated thanks to the DRC's government owning a stake in the Kamoakakula project and Ivanhoe Mine's stellar social impact on the local communities. (2) China's 'Lehman Brothers' moment. The Chinese consumer market represents an important part of global copper demand. As the events surrounding Evergrande's bankruptcy in 2021 have shown, commodity markets are tied in part to the stability of China's economy. Key secular risks for China's economy are a demographic collapse, a housing bubble, and water scarcity. (3) Faster than expected aggregate copper supply growth. A downside risk to our valuation estimate could be that copper supply can keep up with or even exceed demand, uprooting our thesis on favourable long-term copper prices.