

Bushveld Minerals

Takeover provides easier access to capital

Bushveld has proposed an off-market takeover bid for Lemur Resources for A\$0.06 – a share valuing Lemur’s entire share capital at A\$10.9m (£5.6m). To support the bid and to satisfy Bushveld’s small capital requirement of A\$4.0m (£2.0m) to buy the remaining Lemur shares it does not already own (36.4%), it has entered into a subscription agreement with Riveridge for a six-month convertible loan note providing £2.6m. The takeover, if completed, will allow Bushveld easier access to Lemur’s cash of c A\$13.0m and full control over its coal assets, making it value-accretive. We would expect Bushveld to use these additional cash resources to progress its own vanadium and tin projects in South Africa.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
02/13	0.0	(2.3)	(0.9)	0.0	N/A	N/A
02/14	0.0	(1.3)	(0.4)	0.0	N/A	N/A
02/15e	0.0	(2.1)	(0.5)	0.0	N/A	N/A
02/16e	0.0	(1.2)	(0.2)	0.0	N/A	N/A

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

Loan note bears 15% over 6m term, convertible at 8p

Bushveld’s agreement with Riveridge details a convertible loan for proceeds totalling £2.6m. The note bears interest of 15% over its six-month duration, at the end of which Riveridge could convert into Bushveld shares at a price of 8p. In our view, while Bushveld’s shares have returned c 35% ytd, its current price level of c 4.3p makes an 8p conversion price in six months’ time look ambitious. However, successful completion of the takeover brings with it easier access to Lemur’s cash of c £6.63m (A\$13.00m). If Riveridge fails to convert the note, Lemur’s cash could be used to repay the principal plus interest amount of £2.99m, leaving c £4.25m in cash for use. We suggest it is Bushveld’s hope that numerous upcoming catalysts concerning its vanadium and tin assets will elevate its share price from current levels, allowing Riveridge to successfully convert the loan note.

Lemur’s assets – cash is key to Bushveld’s bid

Lemur’s assets include the 99%-owned Imaloto thermal coal project in Madagascar, which has 135.7Mt resource of which 91% is in the measured and indicated categories. It also owns 100% of two pre-resource coal projects, Sakhara and Ianapara. Of greater significance, however, is Lemur’s cash balance of A\$13.00m (A\$14.29m at end-February 2015, drawn down to A\$13.0m due to Lemur’s share buy-back programme and corporate spending), allowing Bushveld easy access to capital to progress its South African vanadium and tin assets.

Valuation: Imaloto coal project in for free

Bushveld’s A\$10.875m valuation of Lemur Resources equates to a negative EV of A\$3.4m or -A\$0.03 per tonne of Imaloto’s total coal resource. While we have no detailed peer group for this region, it is self-evident that Bushveld, if successful, will have acquired a significant coal resource for less than no cost to its balance sheet.

Lemur Resources takeover

Metals & mining

21 May 2015

Price **4.30p**

Market cap **£21m**

US\$1.52/£, A\$1.96/£

Net cash (£m) at August 2014 8.5

Shares in issue 479.7m

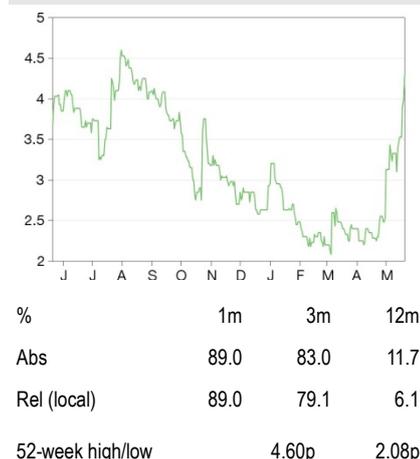
Free float 49%

Code BMN

Primary exchange AIM

Secondary exchange N/A

Share price performance



Business description

Bushveld Minerals is an AIM-listed junior diversified commodity explorer in the mineral-rich Bushveld Complex in South Africa. Its flagship project is an iron-titanium-vanadium deposit on the northern limb of the Bushveld Complex. It also has a 63.6% equity interest in ASX-listed Lemur Resources.

Next event

Lemur takeover approval Q216

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Imaloto coal project: Lemur's flagship asset

Lemur's CEO is Mr Anthony Viljoen, who is also a non-executive director of Bushveld Minerals and has worked closely with Fortune Mojapelo to realise the value inherent in both Bushveld's and Lemur's assets. Neither Bushveld nor Lemur have commented on changes to their management teams at this time but we expect further clarification in due course. Bushveld is seeking shareholder approval and is in the process of lodging a bidder's statement to ASX to outline the reasons why Lemur's shareholders should agree to the takeover.

A summary of our previous scoping study-based valuation of Imaloto and its coal resource is given in the following sections.

Coal resources: 135.7Mt, 91% in measured and indicated

The Imaloto coal project comprises three seams (upper, main and lower) and has a total JORC-compliant resource of 135.7Mt, of which 91% is within the measured and indicated categories. According to the scoping study released on 26 September 2013, the main seam could be considered for a 5,600kcal/kg NAR product via a single wash, which will result in a product with an ash content of 16.9%, volatiles of 30.7%, total sulphur of 0.96% and a theoretical yield of 67.4%.

Imaloto scoping study: Two-phase development strategy

The Lemur-commissioned 26 September 2013 scoping study on the Imaloto coal project considered an open-pit operation for the first eight years, followed by an underground operation to start in year nine to the end of the life of mine (LOM) at 19 years. Phase 1 is expected to produce feedstock to a proposed power station at 400ktpa, while the underground operation (Phase 2) is planned to produce 1.5Mtpa, which consists of 1.0Mtpa as an export grade product. The study also assumed that production would feed a nearby power plant with a total of 9.0Mt over the LOM and 10.7Mt of production for export sales. While no independent power plant (IPP) concession exists at the time of writing, Lemur has continued its discussions with the relevant authorities to secure an IPP licence and advance the technical aspects required by this application.

On a 100% basis the Imaloto scoping study indicated a post-tax NPV of US\$36m (at a discount rate of 10%) for a US\$12m capital expenditure to start the initial open-pit phase. This valuation used a US\$81/t thermal coal price vs a current Richards Bay coal price of c US\$60/t.

Financials

Conversion at 8p potentially adds 37.4m Bushveld shares

Conversion by Riveridge of the £2.99m (principal plus interest) amount (assuming Bushveld fully draws-down on the convertible loan note) would equate to 37.4m new Bushveld shares, representing dilution of 7.8%. We have omitted any additional dilution from our financial model until Bushveld announces it has successfully completed its takeover of Lemur, reveals the exact amount of the loan note drawn-down by Bushveld and states if a successful conversion is viable.

Lemur's cash needed to complete Bushveld's vanadium BFS

At end-August 2014 Bushveld had group net cash of £8.5m, which includes the remains of the A\$15m in cash it acquired through its previous Lemur resources off-market takeover bid in May 2013. The result of this previous takeover bid was that Bushveld only secured a 52.22% interest in Lemur Resources. Bushveld has planned expenditures for FY16 totalling £11.5m (see overleaf).

Easier access to Lemur's c A\$13.00m in cash (ie without needing board, shareholder or regulatory approvals) is naturally subject to Bushveld successfully completing its takeover. This will help Bushveld complete its planned FY16 capital expenditure programme currently underway and also progress its vanadium bankable feasibility study. We anticipate the expenditures of the company to be as follows:

- £1.3m (US\$2m) on advancing its tin projects;
- £0.7m (US\$1m) to complete its vanadium pre-feasibility study.
- up to £9.9m (US\$15m) to complete a bankable feasibility study also during FY16. Bushveld's strategy is to attract a strategic partner to help fund this study. This amount is not included in our financial summary;
- £1.3m (US\$2m) on the company's P-Q (titanium, iron ore and phosphate project); and
- £1.0m in central costs.

We note that Bushveld still has 23.1m warrants outstanding related to a 30 October 2013 equity raise. These are valued at 5p each with an exercise date of 30 October 2015, and, if successfully exercised, would raise an additional £1.2m.

Exhibit 1: Financial summary

	£'000s	2011	2012	2013	2014	2015e	2016e
Year end 28 February		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		0	0	0	0	0	0
Cost of Sales		0	0	0	0	0	0
Gross Profit		0	0	0	0	0	0
EBITDA		(2)	(20)	(2,359)	(1,435)	(2,000)	(1,000)
Operating Profit (before GW and except.)		(2)	(20)	(2,359)	(1,376)	(2,099)	(1,164)
Intangible Amortisation		0	0	0	0	0	0
Exceptionals		0	0	0	901	0	0
Other		0	0	0	0	0	0
Operating Profit		(2)	(20)	(2,359)	(476)	(2,099)	(1,164)
Net Interest		1	2	105	59	0	0
Profit Before Tax (norm)		(1)	(18)	(2,254)	(1,317)	(2,099)	(1,164)
Profit Before Tax (FRS 3)		(1)	(18)	(2,254)	(417)	(2,099)	(1,164)
Tax		0	0	0	0	0	0
Profit After Tax (norm)		(1)	(18)	(2,254)	(1,317)	(2,099)	(1,164)
Profit After Tax (FRS 3)		(1)	(18)	(2,254)	(417)	(2,099)	(1,164)
Average Number of Shares Outstanding (m)		168.0	211.8	235.9	330.4	448.2	479.7
EPS - normalised (p)		(0.0)	(0.0)	(0.9)	(0.4)	(0.5)	(0.2)
EPS - FRS 3 (p)		(0.0)	(0.0)	(0.9)	(0.1)	(0.5)	(0.2)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A	N/A
BALANCE SHEET							
Fixed Assets		1,037	1,842	53,637	54,207	56,124	61,310
Intangible Assets		1,035	1,841	53,314	53,981	54,024	54,066
Tangible Assets		2	2	74	225	2,100	7,245
Investments		0	0	249	0	0	0
Current Assets		130	80	1,355	9,318	8,966	5,379
Stocks		0	0	0	0	0	0
Debtors		96	69	50	141	141	141
Cash		34	11	1,305	9,177	8,826	5,238
Current Liabilities		(966)	(1,583)	(199)	(344)	(344)	(2,944)
Creditors		(17)	(18)	(199)	(344)	(344)	(344)
Short term borrowings		(949)	(1,566)	0	0	0	(2,600)
Long Term Liabilities		0	0	0	0	0	0
Long term borrowings		0	0	0	0	0	0
Other long term liabilities		0	0	0	0	0	0
Net Assets		201	339	54,793	63,180	64,746	63,746
CASH FLOW							
Operating Cash Flow		(59)	(11)	(1,958)	(1,247)	(1,836)	(836)
Net Interest		1	2	105	59	0	0
Tax		0	0	0	0	0	0
Capex		(756)	(605)	(2,059)	(1,065)	(2,016)	(3,332)
Acquisitions/disposals		0	0	(120)	8,325	0	(2,020)
Financing		607	590	5,317	1,797	3,500	2,600
Dividends		0	0	0	0	0	0
Net Cash Flow		(207)	(23)	1,286	7,869	(352)	(3,587)
Opening net debt/(cash)		(241)	915	1,555	(1,305)	(9,177)	(8,826)
HP finance leases initiated		0	0	0	0	0	0
Other		(949)	(617)	1,574	3	(0)	0
Closing net debt/(cash)		915	1,555	(1,305)	(9,177)	(8,826)	(5,238)

Source: Company accounts, Edison Investment Research Note: Pre-vanadium BFS cost (£3.3m) assumes convertible loan note value of £2.6m is fully drawn-down and carried as debt until a decision on conversion is taken by Riveridge. No amount included for potential Vanadium BFS in 2016.

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