

Bushveld Minerals*

BUY

Target 18.28p (from 14p)

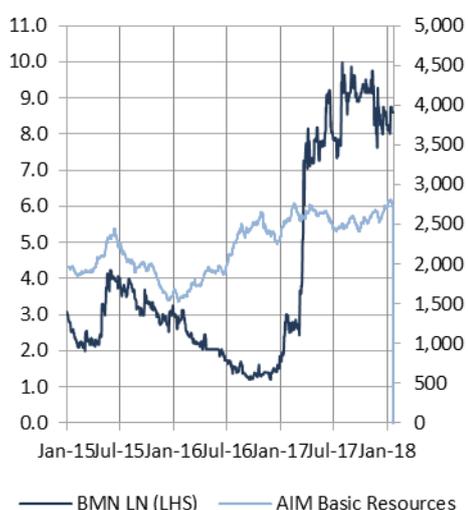
Vanadium price rise more than offsets SA rand strength

Stock Data

Ticker	BMN LN
Share Price:	8.6 pence
Market Cap:	£75m

Bushveld Minerals holds 59.1% Vametco one of the world's larger producers of Ferro Vanadium. **We are upgrading our target price to 18.28p from 14p based on Bushveld's increased share of the cash flow from Vametco.**

Price Chart



- Previously we commented on the impact of lower vanadium production in Q4'17 caused by repairs and upgrades to the kiln at the Vametco plant in South Africa.
- Today we focus on the impact of higher FerroVanadium prices and the impact of the markedly stronger South African rand.
- **FerroVanadium prices:** The FerroVanadium price has more than doubled over the past six months to US\$60/kgV and while Bushveld Vametco does not receive these prices till three-months after we see them, due to delayed pricing formulae, they do feed through.
- We know the FerroVanadium price has averaged US\$42.1/kgV over the past three months and we could fairly safely assume around US\$50/kgV for the next three months followed by a fairly conservative US\$25/kgV for the rest of the year. US\$25/kgV is still markedly higher than 2016 so while it is half the current price it still feels cautiously realistic given where prices have come from.
- This gives a price assumption of US\$36.25/kgV which is 17% higher than our previous US\$33/kgV forecast.
- We then raise our longer term forecast by 9% to US\$30/kgV from US\$27.5/kgV previously which may again feel conservative in time and will hopefully give room for further upgrade in time.
- **Forex:** The election of Cyril Ramaphosa to the head of the ANC has caused the ZAR:USD rate to strengthen significantly with the rand strengthening by a whopping 20% since its low in November. It's a big move for a major currency.

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Bushveld Minerals cont...

Vametco plant assuming 100%		2017	2018	2019	2020	2021
Price V205	\$/lb	6.40	8.17	6.63	6.63	6.63
Vanadium flake price	US\$/kg	32.60	36.25	30.00	30.00	30.00
Vanadium sales	kg	2,721	3,680	3,750	5,000	5,000
Sales	US\$m	81.97	123.27	103.97	138.61	138.61
Operating costs	US\$m	58.23	74.36	76.49	100.30	100.30
Operating costs	US\$/kg	21.40	20.21	20.40	20.06	20.06
Operating profit	US\$m	23.74	48.91	27.47	38.31	38.31
Pre-tax profit	US\$m	23.49	48.42	25.99	35.90	36.03
tax	US\$m	6.69	13.80	7.41	10.23	10.27
Post-tax profit	US\$m	16.80	34.62	18.58	25.67	25.76
EPS	US\$/s	1.95	4.03	2.16	2.99	3.00
PE	x	5.4	2.6	4.9	3.6	3.5
EV/EBITDA	x	3.8	1.9	3.3	2.4	2.4

Figures based on 100% of Vametco plant. Bushveld now hold an effective 59.1% of the Vametco plant

*SP Angel act as nomad and broker to Bushveld Minerals

- We had previously assumed a ZAR:USD rate of 13.6 which we have cut to 13.0. While this is not the spot rate of around 12.1 it does reflect the view that SA growth forecasts may take some time to recover and the ANC still has much to do to clean up corruption.
- **Production forecasts:** Following discussion with Bushveld Minerals we have raised our production forecasts to match the guidance given by the company.

Valuation: The net effect is to strengthen our valuation to 18.28 pence per share though we would caution that with the South African rand and vanadium prices both showing unusually large movements that the company's cash flows and valuation are also liable to unusually large changes depending on the spot prices used or assumptions being made.

**An SP Angel mining analyst and nomad have visited the Vametco vanadium mine and processing facilities in South Africa.*

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