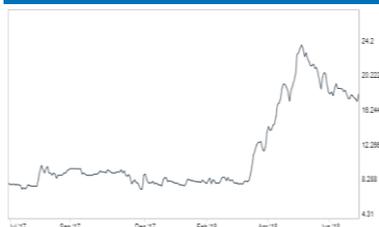


29 June 2018

BMN LN Mining & Metals



Source: LSE

Market data

Price (p)	18.4
12m High (p)	24.1
12m Low (p)	7.6
Shares (m)	1,067.8
Mkt Cap (£m)	196.5

Company summary

Bushveld Minerals is an AIM-quoted mineral resource development and production company. The group's key asset is a majority controlling interest in the Vametco vanadium operation in South Africa. Bushveld also has thermal coal interests via its wholly-owned Lemur Resources subsidiary and tin exposure via a 17.5% stake in AfriTin Mining Ltd.

Key forecasts

	2017	2018e	2019e
Sales (£m)	2.2	127.5	126.0
EBITDA (£m)	0.7	64.7	56.9
EPS (GBp)	(0.1)	2.6	2.0
EV/EBITDA (x)	na	2.8	3.2
EV/EBITDA* (x)	na	4.7	5.3
P/E (x)	na	7.2	9.3

*Equity-attributable adjusted EBITDA

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Bushveld Minerals*

A transformational year, with more to come

2017 was a landmark year for Bushveld, the company transforming from explorer to producer with a significant share of the global vanadium market through its acquisition of a 59.1% interest in the Vametco operation in South Africa. The acquisition was executed at a low purchase price equating to <10% of the asset's replacement value and could not have been better timed, immediately preceding a sharp recovery in the vanadium price (FeV rising from US\$19/kg when the deal was announced to over US\$40/kg by the end of 2017). The latter drove a significant upturn in Vametco's profitability in 2017, and the operation is set to further leverage continued price strengthening (to >US\$70/kg currently) with the recent completion of a capacity expansion to 3,750t V (vs production of 2,649t in 2017). With Vametco's low cost structure of <US\$20/kg (before royalties and admin costs), we believe this could see consolidated EBITDA of £65m generated in 2018 assuming our now conservative looking 2018 FeV price assumption of US\$50/kg (our EBITDA estimate would exceed £100m assuming current FeV prices). Another phase of expansion is planned to increase output to 5,000t by end 2019, further cementing Bushveld's strategic position as one of the world's very few primary vanadium producers of scale in a structurally-constrained global market.

- ▶ **2017 results – a transformative year:** As the second stage of the Vametco transaction (taking Bushveld's ownership to a majority 59.1%) was completed on 21 December 2017, Vametco's results were only consolidated from that date (and thus only a small percentage of Vametco's underlying performance is captured in Bushveld's 2017 P&L). As previously reported, on a 100% basis Vametco generated revenue of R1,052m (+39% y-o-y) and EBITDA of R318m (+558%), benefiting from higher vanadium prices (FeV averaging US\$33/kg V in 2017, +77% vs 2016). The consolidated group's cash position at year-end was £7.2m, slightly ahead of our £6.6m estimate owing to working capital variances. Post year-end, Bushveld further strengthened its balance sheet with the completion in March of a £15.7m oversubscribed placing of shares that brought significant new specialist and institutional investors to the share register.
- ▶ **Further margin expansion anticipated across 2018:** We forecast vanadium production rising to 3,680t in 2018, reflecting the two phases of expansion completed to date since Bushveld took ownership of Vametco. We estimate 2018 total cash costs (i.e. including royalties, selling and administration costs) at US\$23.61/kg (assuming a US\$1 to R12 FX rate), which would give the operation a cash margin of over 50% at our assumed year average FeV price of US\$50/kg. However, we note that the latter assumption is looking increasingly conservative, FeV having averaged well over US\$60/kg year-to-date and currently sitting at over US\$70/kg. We will review our pricing assumptions and forecasts in due course given continued vanadium market tightening on rising demand and constrained supply amid new standards for Chinese steel rebar.
- ▶ **Undemanding valuation metrics:** Bushveld's EV (adjusted for the March equity raise) equates to just 4.7x our estimate of 2018 EBITDA (adjusted for its 59% interest in Vametco) at our conservative 2018 FeV price assumption of US\$50/kg. Were we to assume the 2018 year-to-date average price of cUS\$65/kg for the full year, the multiple would fall to 3.1x, dropping to just 2.5x at the current media-reported pricing level of US\$74/kg. We therefore consider Bushveld's current share price reflects an attractive entry point to a strong growth story in a highly-compelling commodity market sub sector.

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