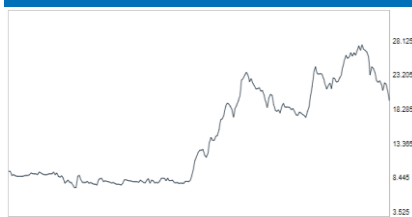


13 September 2018

BMN LN Mining & Metals



Source: LSE

Market data

Price (p)	19.0
12m High (p)	28.5
12m Low (p)	7.6
Shares (m)	1,109.2
Mkt Cap (£m)	210.7

Company summary

Bushveld Minerals is an AIM-quoted mineral resource development and production company. The group's key asset is a 75% 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	154.6	156.3
EBITDA (£m)	0.7	90.8	86.2
EBITDA, adj* (£m)	0.7	67.7	64.3
EPS (GBp)	(0.1)	4.8	4.1
EV/EBITDA (x)	na	2.3	2.4
EV/EBITDA adj* (x)	na	3.1	3.2
P/E (x)	na	4.0	4.7
Net cash (£m)	1.4	36.5	88.0

*Equity-attributable adjusted EBITDA

Analyst contact

Nick Chalmers
Email: nchalmers@altrescap.com
Tel: +44 (0)20 7186 9003

Sales contacts

Alex Wood
Email: awood@altrescap.com
Tel: +44 (0)20 7186 9004

Andrew Archer
Email: aarcher@altrescap.com
Tel: +44 (0)20 7186 9005

Bushveld Minerals*

Increases underlying interest in Vametco to 75%

Bushveld has increased its ownership of the Vametco integrated vanadium operation in South Africa from 59% to 75% through the acquisition of the balance of interest in holding company SMC that it did not already own for US\$20m. We see the transaction as significantly accretive to both earnings and valuation, lifting our estimate of *equity-attributable* EBITDA by 27% and our sum-of-parts NAV by 23%. With Bushveld trading at an EV of just 3.1x our estimate of attributable 2018 EBITDA and its shares at a 48% discount to our revised NAV estimate, we believe today's transaction should be a catalyst for upwards re-rating in what remains a strong growth story in a highly-compelling commodity sector. Vanadium has continued its upwards march over recent weeks, breaching US\$80/kg and taking the 2018 average to US\$70/kg, above the US\$68/kg assumed in our 2018 estimates. We therefore see upside to our forecasts, notwithstanding the recent production interruptions which we anticipate being resolved in short order.

- ▶ **Sojitz stake in SMC acquired for US\$20m:** Bushveld has paid US\$20m in cash to Japanese industrial conglomerate Sojitz for the latter's 21.2% interest in Strategic Minerals Corp (SMC), the entity that in turn holds the controlling 75% stake in Vametco. The transaction was funded through existing cash resources, in keeping with the stated use of proceeds from Bushveld's US\$22m equity placing in March. The consideration comprises US\$17.5m for Sojitz' shares in SMC and US\$2.5m for full and final settlement of accrued but unpaid dividends.
- ▶ **Increasing effective interest in Vametco from 59% to 75%:** The transaction consolidates Bushveld's ownership of SMC to 100%, increasing its see-through interest in Vametco to 75% and thereby enhancing its exposure to the underlying cash flow of the operation from 59% previously. The latter reflected a 78.8% stake in SMC that Bushveld acquired (initially with a strategic partner, subsequently bought out) for US\$21.5m (US\$16.5m upfront, US\$5m deferred) from Russian steel group EVRAZ in April 2017 when vanadium was trading at just cUS\$25/kg (versus today's price of cUS\$80/kg). **Today's transaction takes the total consideration for 75% of Vametco to US\$41.5m, less than 40% of our estimate of the (consolidated) EBITDA the operation could generate this year.**
- ▶ **Accretive to earnings and valuation:** We have updated our financial model to incorporate Bushveld's enhanced ownership level in Vametco and the US\$20m cash outflow to Sojitz. Our estimate of equity attributable annual EBITDA rises by 27% accordingly versus our previous forecasts. On this basis we estimate Bushveld's EV (adjusted for the US\$20m cash payment to Sojitz) equates to just 3.1x our estimate of its 75% equity attributable share of 2018 EBITDA, the latter calculated at an assumed year-average vanadium price of US\$68/kg (versus the current market price of just over US\$80/kg). Single-asset junior miners typically trade at 4-6x EBITDA, and we therefore consider Bushveld's current share price offers compelling value, particularly given the organic growth prospects at Vametco. The transaction is similarly accretive to our sum-of-parts valuation, lifting our NAV estimate by 23% to 36p per share. The latter represents 90% upside to Bushveld's current share price, a valuation gap we believe should narrow as the Vametco expansion is further progressed over the next 12 months and as Bushveld begins drawing up its share of surplus cash flow from the operation (which we feel today's transaction brings a step closer). Moreover, we note management is working hard to effect a timely resolution to the recently reported unprotected industrial action at Vametco, which has temporarily halted production and has weighed on Bushveld's shares over recent days.

Valuation

Figure 1: Base-case sum-of-the-parts valuation*

		Unrisked US\$m	Risk multiple	Risk US\$m	Risk GBP/s
Vametco (BMN share)	NPV _{10%}	415	1.0x	415	29.2
Mokopane	NPV _{10%}	404	0.2x	81	5.7
Brits	nominal	20		20	1.4
AfriTin Mining (17.5%)	market	2		2	0.1
Lemur Resources	nominal	10		10	0.7
Corporate G&A	NPV _{10%}	-19		-19	-1.3
EV		832		509	35.9
BMN-level cash	estimate	5		5	0.3
NAV		837		514	36.2

*Assumes long-term (from 2021) US\$40/kg V price and R13.00:US\$1 FX rate Source: ARC estimates

Figure 2: Risked NAV (GBP) sensitivity to V price (flat from 2018*) and FX rate

		Vanadium price (US\$/kg V)						
		20.00	30.00	40.00	50.00	60.00	70.00	80.00
USD/ZAR rate	11.00	-6.0	12.1	27.6	43.2	59.2	75.2	91.2
	12.00	-1.7	14.4	29.9	45.7	61.7	77.7	93.7
	13.00	1.1	16.4	31.9	47.8	63.8	79.8	95.8
	14.00	2.9	18.0	33.6	49.6	65.6	81.6	97.6
	15.00	4.4	19.5	35.2	51.1	67.2	83.2	99.2

*Our base-case NAV assumes V drops to a long-term US\$40/kg from 2021 Source: ARC estimates

Figure 3: Risked NAV (GBP) sensitivity to V (flat from 2018*) and discount rate

		Vanadium price (US\$/kg V)						
		20.00	30.00	40.00	50.00	60.00	70.00	80.00
Discount rate	15%	0.2	10.7	21.4	32.4	43.4	54.5	65.5
	12%	0.6	13.6	26.8	40.4	54.0	67.6	81.3
	10%	1.1	16.4	31.9	47.8	63.8	79.8	95.8
	8%	1.7	20.1	38.6	57.6	76.8	96.0	115.1
	5%	3.4	28.4	53.8	79.7	105.8	132.0	158.1

*Our base-case NAV assumes V drops to a long-term US\$40/kg from 2021 Source: ARC estimates

Summary operating and financial forecasts

Figures 4-8 below and over page summarise our base-case operating and financial forecasts, updated to incorporate Bushveld's increased ownership level of Vametco.

We assume Vametco is fully consolidated in Bushveld's P&L from 2018. Bushveld has yet to report financial results for a full year since taking majority control of Vametco, so our forecasts are presented on a 'best estimates' basis. The accounting treatment may differ materially (specifically in relation to minorities and dividends).

For the purposes of our model we continue to assume Vametco only commences cash dividends to its stakeholders (Bushveld at 75%, and the operation's BEE partner at 25%) in 2020 following completion of the capacity expansion programme, with dividend withholding tax applied at 20%. In reality, we believe dividends may commence earlier, particularly now that the ownership structure of Vametco has been simplified.

Figure 4: Summary Vametco operational forecasts and macro assumptions

		2017*	2018E	2019E	2020E	2021E
Vanadium production	t	2,649	3,000	3,750	4,375	5,000
V ₂ O ₅ equivalent	t	4,729	5,355	6,694	7,810	8,926
Vanadium sales	t	2,721	3,000	3,750	4,375	5,000
Ferrovandium market price assumption	US\$/kg V	32.60	68.00	55.00	50.00	40.00
Received basket price (Nitrovan and FeV)	US\$/kg V	30.13	65.96	53.35	48.50	38.80
Total cash costs (including royalties)	US\$/kg V	20.91	27.08	23.70	22.32	20.14
Operating cash margin	%	31	59	56	54	48
All-in costs (including depreciation)	US\$/kg V	21.47	28.32	25.32	23.57	21.14
All-in margin	%	29	57	53	51	46
South African Rand	ZAR:USD	13.30	13.00	13.00	13.00	13.00
GB Sterling	USD:GBP	1.29	1.28	1.28	1.28	1.28

*Bushveld did not assume majority control of Vametco until end 2017

Source: ARC estimates

Figure 5: Summary Bushveld Minerals consolidated income statement

Year-end 31 Dec		2017*	2018E	2019E	2020E	2021E
Revenue	£m	2.2	154.6	156.3	165.8	151.6
Cost of sales	£m	(1.1)	(55.0)	(62.4)	(68.0)	(70.3)
Other income	£m	0.0	0.9	1.0	1.0	0.9
Selling & distribution costs	£m	(0.2)	(7.4)	(7.9)	(8.6)	(8.4)
G&A costs	£m	(3.9)	(5.5)	(5.5)	(5.5)	(5.5)
Other expenses	£m	(0.0)	0.4	0.0	0.0	0.0
Operating profit/(loss)	£m	(3.0)	88.0	81.5	84.6	68.3
Net finance costs	£m	(0.8)	(0.7)	(0.4)	(0.4)	(0.2)
Impairments	£m	(0.5)	0.0	0.0	0.0	0.0
Share of profit/(loss) from associates*	£m	3.6	0.0	0.0	0.0	0.0
Tax	£m	(0.0)	(24.7)	(23.0)	(37.2)	(36.9)
Net profit/(loss)	£m	(0.7)	62.6	58.1	47.0	31.2
Minority interests	£m	(0.3)	(15.9)	(14.8)	(12.0)	(8.0)
Attributable net profit/(loss)	£m	(1.0)	46.7	43.3	35.0	23.2

*Bushveld did not assume majority control of Vametco until end 2017

Source: ARC estimates

Figure 6: Summary Bushveld Minerals consolidated cash flow statement

		2017*	2018E	2019E	2020E	2021E
Operational CF before WC changes	£m	(2.9)	65.7	63.2	51.6	35.3
Working capital changes	£m	(1.1)	(19.1)	2.9	(3.0)	1.0
Cash flow from operations	£m	(4.1)	46.7	66.1	48.6	36.4
Capex	£m	0.0	(9.6)	(12.1)	(2.3)	(2.5)
Other	£m	3.3	(17.6)	(2.0)	(1.6)	(19.1)
Cash flow from investing activities	£m	3.3	(27.2)	(14.2)	(4.0)	(21.6)
Equity issue and warrant exercises	£m	1.7	15.6	0.0	0.0	0.0
Net borrowings	£m	6.4	(5.1)	0.1	0.0	0.0
Dividends to minorities	£m	0.0	0.0	0.0	(19.5)	(26.0)
Other	£m	0.0	(0.7)	(0.4)	(0.4)	(0.2)
Cash flow from financing activities	£m	8.1	9.8	(0.4)	(20.0)	(26.3)
Increase/(decrease) in cash	£m	7.3	29.3	51.6	24.7	(11.5)

*Bushveld did not assume majority control of Vametco until end 2017

Source: ARC estimates

Figure 7: Summary Bushveld Minerals consolidated balance sheet

		2017*	2018E	2019E	2020E	2021E
Cash	£m	7.2	36.5	88.0	112.7	101.3
P,P&E	£m	32.9	39.7	47.1	45.1	43.7
Intangible assets	£m	45.1	45.9	46.3	46.3	46.3
Other assets	£m	33.8	49.3	43.7	46.3	45.6
Total assets	£m	119.1	171.4	225.1	250.5	236.9
Payables	£m	15.0	11.1	27.8	34.0	21.2
Debt	£m	5.8	0.0	0.0	0.0	0.0
Other liabilities	£m	18.8	46.2	29.4	27.8	26.1
Total liabilities	£m	39.6	57.3	57.2	61.8	47.3
Shareholders' equity	£m	52.5	71.2	110.2	138.7	157.5
Non-controlling interests	£m	27.0	42.8	57.6	50.1	32.1
Total equity	£m	79.5	114.1	167.8	188.8	189.6
Total liabilities & equity	£m	119.1	171.4	225.1	250.5	236.9

*Bushveld did not assume majority control of Vametco until end 2017

Source: ARC estimates

Figure 8: Key financial measurements and ratios

		2017E*	2018E	2019E	2020E	2021E
EBITDA	£m	0.7	90.8	86.2	88.9	72.2
EBITDA margin	%	30	59	55	54	48
EBIT	£m	0.1	88.0	81.5	84.6	68.3
EBIT margin	%	3	57	52	51	45
EPS	GBP	(0.1)	4.8	4.1	3.3	3.3
Net profit margin	%	na	30	28	21	15
Free cash flow	£m	(0.8)	19.5	51.9	44.7	14.8
Net cash/(debt)	£m	1.4	36.5	88.0	112.7	101.3
EV/EBITDA (consolidated)	x	na	2.3	2.4	2.3	2.9
EV/EBITDA (equity attributable)	x	na	3.1	3.2	3.1	3.9
P/E	x	na	4.0	4.7	5.8	5.7
FCF yield	%	na	0.1	0.2	0.2	0.1

*Bushveld did not assume majority control of Vametco until end 2017

Source: ARC estimates

Disclaimer

This document has been prepared and issued by Alternative Resource Capital, a trading name of Shard Capital Partners LLP ("Alternative Resource Capital"), which is authorised and regulated by the Financial Conduct Authority.

Bushveld Minerals is a corporate client of Alternative Resource Capital, and Alternative Resource Capital is contractually engaged and paid by Bushveld Minerals to produce marketing communications on an ongoing basis. In addition, Alternative Resource Capital may from time to time receive additional compensation from Bushveld Minerals for provision of other advisory services, including fundraising services. This document constitutes a minor non-monetary benefit.

This document is a marketing communication and not independent research. As such, it has not been prepared in accordance with legal requirements designed to promote the independence of investment research.

This document is published solely for information purposes and is not to be construed as a solicitation or an offer to buy or sell any securities, or related financial instruments. It does not constitute a personal recommendation as defined by the Financial Conduct Authority, nor does it take account of the particular investment objectives, financial situations or needs of individual investors. The information contained herein is obtained from public information and sources considered reliable. However, the accuracy thereof cannot be guaranteed.

The information contained in this document is solely for use by those persons to whom it is addressed and may not be reproduced, further distributed to any other person or published, in whole or in part, for any purpose, at any time, without the prior written consent of Alternative Resource Capital. This document is not intended for retail customers and may not be distributed to any persons (or groups of persons) to whom such distribution would contravene the UK Financial Services and Markets Act 2000. Moreover, this document is not directed at persons in any jurisdictions in which Alternative Resource Capital is prohibited or restricted by any legislation or regulation in those jurisdictions from making it available. Persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

Alternative Resource Capital or its employees may have a position in the securities and derivatives of the companies researched and this may impair the objectivity of this report. Alternative Resource Capital may act as principal in transactions in any relevant securities, or provide advisory or other service to any issuer of relevant securities or any company connected therewith.

Neither Alternative Resource Capital nor any of its directors, officers, employees or agents accept any responsibility or liability whatsoever for any loss however arising from any use of this document or its contents or otherwise arising in connection therewith. The value of the securities and the income from them may fluctuate. It should be remembered that past performance is not a guarantee of future performance. Investments may go down in value as well as up and you may not get back the full amount invested. The listing requirements for securities listed on AIM or ISDX are less demanding and trading in them may be less liquid than main markets. If you are unsure of the suitability of share dealing specifically for you then you should contact an Independent Financial Adviser, authorised by the Financial Conduct Authority.

By accepting this document, the recipient agrees to the foregoing disclaimer and to be bound by its limitations and restrictions.

Further information on Alternative Resource Capital's policy regarding potential conflicts of interest in the context of investment research and its policy on disclosure and conflicts in general are available on request.

Alternative Resource Capital is a trading name of Shard Capital Partners LLP, which is authorised and regulated by the Financial Conduct Authority. Shard Capital Partners LLP's registered partnership number is OC360394.



Shard Capital Partners LLP
23rd Floor,
20 Fenchurch St,
London, EC3M 3BY

T +44 (0)207 186 9900
F +44 (0)207 186 9979
E info@shardcapital.com
W shardcapital.com