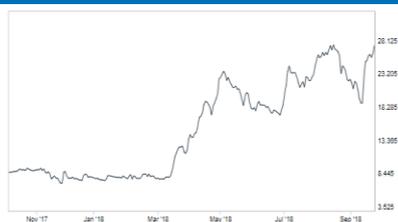


26 September 2018

BMN LN Mining & Metals



Source: LSE

Market data

Price (p)	30.0
12m High (p)	30.0
12m Low (p)	7.6
Shares (m)	1,109.2
Mkt Cap (£m)	325.6

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	3.6	3.8
EV/EBITDA adj* (x)	na	4.9	5.1
P/E (x)	na	6.2	7.4
Net cash (£m)	1.4	36.5	88.0

*Equity-attributable adjusted EBITDA

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Bushveld Minerals*

H1 results underline company transformation

Bushveld's maiden interim financial results since taking majority control of the Vametco integrated primary vanadium operation in South Africa late last year highlight just how opportune the timing of the transaction was. H1 revenue jumped from £26m at Vametco in 2017 (prior to Bushveld taking majority ownership) to £62m in 2018, reflecting vanadium's sharp ascent over the past year on constrained supply and firming demand. Bushveld's consolidated EBITDA for the period was £32m (vs £6m for Vametco in H1 2017), a margin of over 50%. We believe margins could widen further over H2 given vanadium's continuing strength and our expectation of higher production rates at Vametco following the recently completed Stage 2 expansion. We await updated full-year guidance to ascertain whether the recent industrial action (now resolved) will adversely impact our production and cost estimates. But otherwise, we believe the risks could lie to the upside – FeV is currently trading at >US\$90/kg, vs our 2018 forecast of US\$68/kg and our long-term pricing assumption of US\$40/kg.

- **Maiden consolidated interim results reflect vanadium's stellar rise:** Reporting its first period of fully consolidated accounts since gaining majority control of Vametco in late 2017, Bushveld has reported consolidated revenue of £62.1m for H1 2018. This compares with Vametco's H1 2017 revenue of £26.4m, the substantial increase reflecting an upwards step-change in the vanadium market (FeV averaged US\$66/kg in H1 2018, more than double the H1 2017 average of US\$26/kg). Bushveld's consolidated EBITDA was £31.7m accordingly, compared with Vametco's stand-alone EBITDA of £5.7m in H1 2017. It ended the period with a consolidated cash balance of £26.2m and no debt (post period-end the company paid out US\$20m in cash to Sojitz in return for the latter's 16% effective interest in Vametco, increasing Bushveld's ownership level to 75%).
- **H1 results tracking our full-year estimates given expectations for H2:** As we expect production rates at Vametco to increase over H2 as the as the recently completed capacity expansion to 3,750t (from c3,000tpa previously) ramps up, we believe the H1 financial results are tracking our unchanged full year estimates (consolidated revenue of £155m, and EBITDA of £91m), which are based on the company's last stated full-year production and cost guidance. We note that Bushveld is in the process of assessing the impact on that guidance of the recent 16-days of unprotected industrial action at Vametco which temporarily brought production to a halt – the company expects to provide an update by its Q3 operational results. Any downwards revision to production guidance and/or any increase in cost guidance could impact our estimates. However, at >US\$90/kg, we also note that current market FeV prices are significantly above our 2018 year-average assumption of US\$68/kg.
- **Valuation:** Bushveld is trading at an undemanding EV/EBITDA multiple of 4.9x our estimate of its equity-adjusted 2018 EBITDA (established junior miners can trade up at 6x in our experience), and at a c20% discount to our sum-of-parts NAV estimate of 36p (the latter assuming a long-term FeV price of US\$40/kg from 2021). We await to see whether the recent industrial action (now resolved) has any adverse impact on production and cost guidance. But otherwise we continue to believe the risks could lie to the upside given vanadium's sharp ascent through H2 2018 to date. Were we to upwardly adjust our 2018 FeV price assumption by projecting forward current market prices for the remainder of the year, our consolidated EBITDA estimate would rise by 20% (which would put Bushveld on an attributable EV/EBITDA multiple of just 4.0x).

Summary operating and financial forecasts

Figure 1: Summary Bushveld Vametco operational forecasts and macro assumptions

Year-end 31 Dec		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 2: 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 3: Summary Bushveld Minerals consolidated cash flow statement

Year-end 31 Dec		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 4: Summary Bushveld Minerals consolidated balance sheet

Year-end 31 Dec		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 5: Key financial measurements and ratios

Year-end 31 Dec		2017E*	2018E	2019E	2020E	2021E
EBITDA	£m	(1.5)	0.7	90.8	86.2	88.9
EBITDA margin	%	na	30	59	55	54
EBIT	£m	(1.5)	0.1	88.0	81.5	84.6
EBIT margin	%	na	3	57	52	51
EPS	GBp	(0.3)	(0.1)	4.8	4.1	3.3
Net profit margin	%	na	na	30	28	21
Free cash flow	£m	(0.8)	(0.8)	19.5	51.9	44.7
Net cash/(debt)	£m	0.1	1.4	36.5	88.0	112.7
EV/EBITDA (consolidated)	x	na	491.8	3.6	3.8	3.7
EV/EBITDA (equity attributable)	x	na	na	4.9	5.1	5.0
P/E	x	na	na	6.2	7.4	9.2
FCF yield	%	na	na	0.1	0.2	0.1

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

Source: ARC estimates

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