

23 May 2019

BMN LN Mining & Metals



Source: LSE

Market data

Price (p)	28.5
12m High (p)	48.2
12m Low (p)	17.6
Shares (m)	1,119.1
Mkt Cap (£m)	318.9

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*

	2018	2019e	2020e
Sales (\$m)	192.1	168.4	175.8
EBITDA (\$m)	101.2	84.6	87.9
EBITDA, adj** (\$m)	72.7	61.3	63.7
EPS (\$/sh)	0.03	0.03	0.03
EV/EBITDA (x)	3.6	4.3	4.1
EV/EBITDA adj** (x)	5.0	5.9	5.7
P/E (x)	12.5	10.4	11.3
FCF yield (%)	4.1	13.2	9.9
Net cash (\$m)	42.0	94.8	115.8

* Do not include proposed Vanchem acquisition

** Equity-attributable adjusted EBITDA

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Bushveld Minerals*

Solid 2018 results, Vametco reserves double

Bushveld's 2018 financial results are in-line with our expectations and reflect a transformative year for the company, its first since taking controlling ownership of the Vametco operation in South Africa in late 2017. A surging vanadium price through the year more than offset previously documented production interruptions, driving revenue of US\$192m and consolidated EBITDA of US\$101m. The group ended the year with no debt and cash of US\$42m on a consolidated basis, a position of strength from which to progress its recently announced M&A plans. We expect Vametco's already low cost-structure to be further optimised as production rates are expanded, ensuring robust margins are maintained even in a lower vanadium pricing environment. Yesterday's resource/reserve update (which saw a more than doubling of reserves) highlights that Vametco has potential to sustain a higher production rate for many years to come. Our 45p valuation (which assumes a long-term vanadium price close to current levels) points to c60% upside. This is before any allowance for the proposed acquisition of Vanchem, which we believe will prove accretive to both our valuation and earnings forecasts.

- ▶ **2018 results in-line:** Bushveld generated EBITDA of US\$101m from revenue of US\$192m, posting a bottom-line attributable net profit of US\$30m (US\$0.03/sh). With Vametco's results already disclosed, revenue and operating costs were as expected. EBITDA was marginally below our forecast, but this is due solely to non-cash items. Cash generation was in-line with our expectations, the year-end cash position of US\$42m very close to our forecast US\$41m.
- ▶ **Vametco reserves jump:** Bushveld has also announced a more than doubling of Vametco's ore reserves, to 279kt V₂O₅ in magnetite. This reflects a significant increase in indicated resources (up 187%, and now constituting 75% of total resources of 1,284kt) following the group's 2018 drilling campaign, which enhanced geological confidence of the mineralised units and extended the reporting depth to 150m (from 120m previously). Encouragingly, the average reserve grade has increased, to 2.02% V₂O₅ (versus 1.96% previously). The substantial increase in reserves significantly extends Vametco's mine life, and the higher grade may also have positive implications for future production rates. This affirms our existing modelling approach, whereby we assume Vametco operates at Bushveld's targeted long-term capacity level of over 4,000t pa for well beyond 20 years (we see further inferred resources converting over time).
- ▶ **Valuation:** Bushveld is trading at 4.3x our estimate of 2019 consolidated EBITDA (before any allowance for contribution from Vanchem), a market valuation we consider undemanding given the projected multi-decade operating life of Vametco and future production growth. This assumes a FeV price of US\$60/kg, which is below the year-to-date average but above current pricing of cUS\$40/kg. We believe there is potential for vanadium prices to recover through H2 2019 given the still solid market fundamentals, but we would clearly need to revisit our assumptions should current levels persist. We use a US\$45/kg long-term FeV price assumption in our NPV-based valuation of 45p. We await guidance on likely opex structure and timing of the planned Vanchem-Mokopane development ahead of incorporating it in our forecasts and valuation. But we believe the US\$68m deal will prove accretive to both, and feel it puts Bushveld on a path to achieving its long-term production goal of 10,000t pa. Our current 45p valuation includes just 25% of our Mokopane NPV estimate – we believe the NPV of an integrated Vanchem-Mokopane operation would likely exceed our current estimate of Mokopane standalone, with lower development risk.

Summary operating and financial forecasts

Figures 1-5 summarise our base-case forecasts for the next three years, updated for the 2018 full-year results. We will update our forecasts once guidance on the operating economics of Vanchem and the planned integration with Mokopane is provided. **Given Vanchem is already producing profitably at a rate of 960t pa, we would expect the deal to prove accretive to our earnings forecasts.**

Figure 1: Summary Vametco operational forecasts and macro assumptions

		2017*	2018	2019E	2020E	2021E
Vametco vanadium production	t	2,649	2,560	2,850	3,400	4,200
V ₂ O ₅ equivalent	t	4,729	4,571	5,088	6,069	7,498
Vanadium sales	t	2,721	2,573	2,850	3,400	4,200
Ferrovandium market price assumption	US\$/kg V	32.60	81.20	60.00	52.50	45.00
Cash production costs (on-site costs & freight)	US\$/kg V	16.42	19.65	19.20	17.10	15.06
Total cash costs (incl royalties, marketing & G&A)	US\$/kg V	20.94	31.09	27.15	23.98	20.88
Operating cash margin	%	30%	59%	54%	54%	53%
All-in costs (incl depreciation)	US\$/kg V	20.96	33.44	28.75	25.94	22.45
All-in margin	%	30%	55%	51%	50%	49%
South African Rand	ZAR:USD	13.30	13.20	14.00	14.00	14.00

*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*	2018	2019E	2020E	2021E
Revenue	US\$m	2.8	192.1	168.4	175.8	186.2
Cost of sales	US\$m	(1.4)	(65.3)	(68.8)	(74.4)	(79.6)
Other income	US\$m	0.0	7.4	1.0	1.1	1.1
Selling & distribution costs	US\$m	(0.3)	(10.7)	(7.8)	(8.4)	(9.3)
G&A and other costs	US\$m	(5.0)	(28.4)	(12.9)	(12.9)	(12.9)
Operating profit/(loss)	US\$m	(3.9)	95.2	80.0	81.2	85.5
Net finance costs	US\$m	(1.0)	0.8	(0.6)	(0.6)	(0.3)
Share of profit/(loss) from associates*	US\$m	4.7	0.0	0.0	0.0	0.0
One-time and non-cash costs	US\$m	(0.7)	(9.3)	0.0	0.0	0.0
Tax	US\$m	(0.0)	(37.6)	(24.2)	(29.7)	(33.2)
Net profit/(loss)	US\$m	(0.9)	49.0	55.3	50.9	52.0
Minority interests	US\$m	(0.3)	(18.8)	(16.2)	(15.1)	(15.3)
Attributable net profit/(loss)	US\$m	(1.2)	30.2	39.1	35.9	36.8

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

Source: ARC estimates

Figure 3: Summary Bushveld Minerals consolidated cash flow statement

		2017*	2018	2019E	2020E	2021E
Operational CF before WC changes	US\$m	(3.8)	70.3	60.4	58.1	58.9
Working capital changes	US\$m	(1.5)	(25.4)	5.6	(0.8)	(2.9)
Cash flow from operations	US\$m	(5.3)	44.9	66.0	57.4	56.0
Capex	US\$m	0.0	(11.2)	(9.8)	(15.0)	(6.3)
Other	US\$m	4.4	(17.1)	(2.9)	(2.1)	(25.6)
Cash flow from investing activities	US\$m	4.4	(28.3)	(12.6)	(17.1)	(31.9)
Equity issue and warrant exercises	US\$m	11.1	23.1	0.0	0.0	0.0
Net borrowings	US\$m	(0.2)	(6.9)	0.0	0.0	0.0
Dividends to minorities	US\$m	0.0	0.0	0.0	(18.8)	(27.0)
Other	US\$m	0.0	0.0	(0.6)	(0.6)	(0.3)
Cash flow from financing activities	US\$m	10.9	16.2	(0.6)	(19.3)	(27.3)
Increase/(decrease) in cash	US\$m	10.0	32.9	52.8	21.0	(3.2)

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

Source: ARC estimates

Figure 4: Summary Bushveld Minerals consolidated balance sheet

		2017*	2018	2019E	2020E	2021E
Cash	US\$m	9.7	42.0	94.8	115.8	112.6
P,P&E	US\$m	44.4	47.9	53.1	61.4	61.1
Intangible assets	US\$m	60.9	57.2	57.9	57.9	57.9
Other assets	US\$m	45.6	63.6	54.7	56.4	59.0
Total assets	US\$m	160.7	210.6	260.5	291.6	290.7
Payables	US\$m	20.2	20.2	35.7	45.0	36.4
Debt	US\$m	7.8	0.0	0.0	0.0	0.0
Other liabilities	US\$m	25.3	30.8	36.7	38.4	13.3
Total liabilities	US\$m	53.4	51.0	72.5	83.4	49.8
Shareholders' equity	US\$m	70.9	129.9	142.2	166.0	210.5
Non-controlling interests	US\$m	36.4	29.7	45.9	42.2	30.4
Total equity	US\$m	107.2	159.6	188.1	208.2	240.9
Total liabilities & equity	US\$m	160.7	210.6	260.5	291.6	290.7

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

Source: ARC estimates

Figure 5: Key financial measurements and ratios

		2017E*	2018	2019E	2020E	2021E
EBITDA	US\$m	0.9	101.2	84.6	87.9	92.1
EBITDA margin	%	30%	53%	50%	50%	49%
EBIT	US\$m	0.1	85.9	80.0	81.2	85.5
EBIT margin	%	3%	45%	48%	46%	46%
EPS	US\$/sh	(0.00)	0.03	0.03	0.03	0.05
Net profit margin	%	na	16%	23%	20%	20%
Free cash flow	US\$m	(1.0)	16.7	53.4	40.3	24.1
Net cash/(debt)	US\$m	1.9	42.0	94.8	115.8	112.6
EV/EBITDA (fully consolidated)	x	na	3.6	4.3	4.1	3.9
EV/EBITDA (equity attributable)	x	na	5.0	5.9	5.7	5.4
P/E	x	na	12.5	10.4	11.3	6.9
FCF yield	%	na	4.1%	13.2%	9.9%	6.0%

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

Source: ARC estimates

Valuation

Our sum-of-parts valuation is unchanged at 45p. We will update our valuation once more detail emerges on the likely operating cost structure of Vanchem and timing of the proposed integration with Mokopane. However, our preliminary analysis suggests the NPV (inclusive of purchase cost) of an integrated Vanchem-Mokopane operation at 4,200t pa is likely to be higher than our current NPV estimate of Mokopane on the standalone 2016 PFS case. Moreover, Vanchem’s status as an established producer would greatly reduce the delivery risks attached to our Mokopane valuation.

Figure 6: Base-case sum-of-the-parts valuation*

		Unrisked US\$m	Risk multiple	Risked US\$m	Risked GBP/s
Vametco (BMN attributable)	NPV _{10%}	527	1.00x	525	37.1
Mokopane (BMN attributable)	NPV _{10%}	307	0.25x	77	5.4
Brits	nominal	25		25	1.8
AfriTin Mining (17.5%)	market	4		4	0.3
Lemur Resources	nominal	10		10	0.7
Corporate G&A	NPV _{10%}	(42)		(42)	(3.0)
EV		831		601	42.3
Cash (end-2018)	estimate	42		42	3.0
NAV		873		643	45.2

*Assumes long-term (from 2021) US\$45/kg V price and R14.00:US\$1 FX rate Source: ARC estimates

Figures 7-8 illustrate the sensitivity of our risked NAV estimate to vanadium price and ZAR:USD exchange rate assumptions. Note that our NAV would remain comfortably positive at FeV prices considerably below current market levels.

Figure 7: Risked NAV (GBP) sensitivity to V price (flat from 2020*) and FX rate

		Ferrovanadium price (US\$/kg V)						
		25	35	45	55	65	75	85
USD/ZAR rate	12.00	10	26	41	56	72	88	104
	13.00	13	28	43	59	74	90	106
	14.00	14	29	45	61	76	92	108
	15.00	16	31	47	62	78	94	109
	16.00	17	32	48	64	79	95	111

*Our base-case NAV assumes a long-term FeV price of US\$45/kg from 2021 Source: ARC estimates

Figure 8: Risked NAV (GBP) sensitivity to V price (flat from 2020*) and discount rate

		Ferrovanadium price (US\$/kg V)						
		25	35	45	55	65	75	85
Discount rate	15%	11	21	32	42	53	63	74
	12%	13	25	38	52	65	78	91
	10%	14	29	45	61	76	92	108
	8%	17	35	53	72	91	110	129
	5%	22	47	73	99	125	151	177

*Our base-case NAV assumes a long-term FeV price of US\$45/kg from 2021 Source: ARC estimates

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