

21 June 2019

BMN LN Mining & Metals



Source: LSE

Market data

Price (p)	25.0
12m High (p)	48.5
12m Low (p)	17.6
Shares (m)	1,119.1
Mkt Cap (£m)	279.9

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)	3.1	3.7	3.6
EV/EBITDA adj** (x)	4.3	5.1	4.9
P/E (x)	11.0	9.1	9.9
FCF yield (%)	4.7	15.0	11.3
Net cash (\$m)	42.0	94.8	115.8

* Do not include proposed Vanchem acquisition

** Equity-attributable adjusted EBITDA

Analyst contact

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

Broking contacts

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

Rob Collins
 Email: rcollins@altrescap.com
 Tel: +44 (0)20 7186 9001

Bushveld Minerals*

Vanadium resources grow with maiden Brits estimate

Bushveld's consolidated vanadium resource base has grown by almost 10% with the delineation of a maiden JORC-compliant estimate for its Brits project, an undeveloped property lying directly along-strike from the group's operating Vametco mine in South Africa. Incorporating data from last year's drilling campaign, the Brits resource totals 67Mt at an average grade of 1.6% V₂O₅ in magnetite, for 313kt contained V₂O₅ (175kt vanadium). Approximately two-thirds of the resource is classified in the indicated category, with the balance inferred. Though lower-grade than neighbouring Vametco, the average grade of Brits is nonetheless well above global averages, further enhancing Bushveld's strategic position as an owner of substantial high-grade primary vanadium assets. We consider Brits to hold optionality as a further ore feed source for Vametco and/or as an alternative concentrate feedstock (if needed) for the soon-to-be-acquired Vanchem operation 170km by road to the east. Brits accounts for just 4% of our unchanged 45p sum-of-parts valuation. We see potentially material upside to both our valuation and earnings estimates with completion of the Vanchem acquisition, for which we make no allowance in our current base-case forecasts (operating guidance will follow transaction close, expected no later than end October).

- ▶ **2018 drilling delivers maiden high-grade resource:** Drawing upon data from a 26-hole, near 3,000m diamond-drilling campaign undertaken at Brits in 2018, Bushveld has compiled a maiden resource estimate totalling 67Mt an average grade of 1.58% V₂O₅ for 313kt contained V₂O₅ (175kt vanadium), of which 67% is classified as indicated and the 33% balance inferred. The resource is distributed across three seams – Lower, Intermediate and Upper – with the Lower Seam accounting for 83% of the total resource tonnage and the smaller Intermediate Seam exhibiting the highest grades (averaging 1.76% V₂O₅ in magnetite). The resource was delineated from drilling across 1.65km of strike length. It is considered open along-strike to the east, where an unexplored portion of the property extends for a further 1km of strike.
- ▶ **Open pit development optionality:** The resource is reported from surface to a depth of 150m, which we consider points to future open-pit development potential. We note that west neighbouring Vametco is not resource short (the recently announced doubling of reserves can, we believe, sustain production at Vametco's targeted expanded rates for over 20 years), and that Brits is lower grade than Vametco's average of just under 2% V₂O₅ in magnetite (reflecting a regional trend of decreasing grade eastward across the geologic complex). But we think Brits nonetheless offers Bushveld optionality to consider even further expansion of Vametco's processing capacity in the future. Brits could also offer an alternative concentrate feed option for the Vanchem plant, which Bushveld is looking to acquire for US\$68m in cash (and provisionally plans to feed over the longer-term with ore sourced from its Mokopane project to the north).
- ▶ **Undemanding valuation:** Bushveld is trading at an EV of just 3.7x our 2019 EBITDA estimate (before any allowance for contribution from Vanchem). Given the reserve-backed multi-decade operating life of Vametco and expected future production and margin growth, we consider this a mispricing. Our 2019 estimates assume an average FeV price of US\$60/kg, which is around the year-to-date average but above spot of cUS\$35-40/kg. Vanadium prices have risen from an annual low over recent weeks, a recovery trend we expect to continue through H2 2019 given the still solid market fundamentals. However, we would need to revisit our assumptions should lower pricing levels persist.

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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