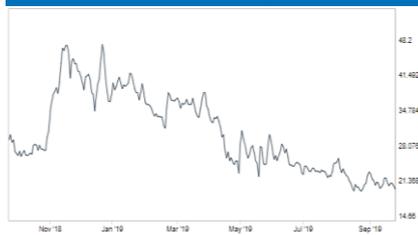


30 September 2019

BMN LN Mining & Metals



Source: LSE

Market data

Price (p)	20.7
12m High (p)	48.2
12m Low (p)	20.2
Shares (m)	1,119.1
Mkt Cap (£m)	231.6

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 9.5% stake in AfriTin Mining Ltd.

Key forecasts*

	2018	2019e	2020e
Sales (\$m)	192.1	139.7	153.0
EBITDA (\$m)	101.2	59.2	67.7
EBITDA, adj** (\$m)	72.7	42.5	48.8
EPS (\$/sh)	0.03	0.02	0.03
EV/EBITDA (x)	2.2	3.7	3.3
EV/EBITDA adj** (x)	3.0	5.2	4.5
P/E (x)	8.9	11.7	9.9
FCF yield (%)	5.8	13.5	10.5
Net cash (\$m)	42.0	80.2	109.8

* Do not include proposed Vanchem acquisition

** Equity-attributable adjusted EBITDA

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Bushveld Minerals*

Strong H1 performance despite V price headwind

An improved operational performance at Vametco in H1 2019 helped offset the headwind of a weaker vanadium price environment to the extent that Bushveld's consolidated EBITDA was just 4% down on the year-ago period despite a 14% lower average vanadium market price. Assuming vanadium prices firm somewhat over the coming months, which we see some scope for, we believe the H1 results put Bushveld on course to meet our full-year estimates (with, contingent on vanadium price, perhaps potential for some upside if the positive trend in production in Q2 is maintained). We expect annualised earnings and margin to grow significantly over the longer term as Vametco is expanded to exploit the potential of its vast resource base, and as the proposed acquisition of the Vanchem processing facility is completed, integrated and expanded. With Bushveld trading at under half our NPV-based valuation (pre-Vanchem) and yielding an EV that equates to just 3.7x forecast 2019 EBITDA, we think the current share price represents an attractive entry point.

- ▶ **Interim results – EBITDA margin widens despite weaker vanadium price:** Bushveld's H1 2019 financial results reflect the underlying performance of its core asset Vametco, operational results for which were reported back in July. Consistent with those results, which showed lower vanadium prices (compared with the highs of H1 2018) overshadowing slightly higher production, revenue was down 7% y-o-y, to US\$78m. However, with costs falling post implementation of the operational transformation programme, consolidated EBITDA was down by just 4% vs H1 2018, to US\$41.0m. As such, EBITDA margin widened slightly, from 51% to 53%. Impressively, free cash flow rose by 42%, to US\$23.3m, highlighting the robust cash-generating capability of Vametco even during a period of continued investment (including M&A) and weaker vanadium prices. Bushveld ended the period with a consolidated cash balance of US\$66.1m and no debt.
- ▶ **Results tracking our full-year estimates, V price contingent:** Given our expectation of production rates at Vametco continuing to rise over H2 as further planned improvement initiatives are rolled out, we believe the H1 results put Bushveld broadly on course to meet our full-year estimates, which we leave unchanged for the time being. However, much depends on the direction of the vanadium price. The year-to-date average ferrovanadium (FeV) price is more or less in line with our 2019 full-year assumption of US\$49/kg. But current market pricing is ranging US\$29/kg (Europe) to US\$38/kg (China), and needs to recover back over US\$40/kg in Q4 if our full-year assumption is to be met. We believe some of the factors behind recent weakness (lax enforcement of new steel rebar standards in China, niobium substitution, and opportunistic supply additions in response to previous high prices and tighter iron-ore markets) may now be unwinding, which could prompt some price recovery over the coming months. However, we would need to revisit our assumptions and estimates should current pricing levels persist.
- ▶ **Vametco expansion and Vanchem to drive longer-term growth:** Bushveld is targeting a sustainable production rate at Vametco of 3,400t pa (being 90% of current nameplate capacity) through 2020 on completion of the operational improvement programme, and thereafter hopes to expand capacity to 5,000t pa (which it expects will facilitate steady-state production of over 4,200t pa by 2022). Assuming our US\$45/kg long-term FeV price assumption, we estimate this could lift Vametco-generated EBITDA to over US\$100m by 2022. Moreover, Bushveld remains confident of completing its planned acquisition of the Vanchem processing facility by the end of next month. We await deal-closure and more detailed production and cost guidance before incorporating into our formal estimates and valuation, but our preliminary analysis suggests Vanchem could be 25-50% accretive to EBITDA over the next few years (and potentially more once fully expanded). It would also materially add to our current 43p NPV-based sum-of-the-parts valuation.
- ▶ **Undemanding market valuation:** Bushveld's current EV equates to 3.7x our estimate of 2019 full-year consolidated EBITDA, dropping to a lowly 2.2x our estimate of annualised EBITDA once Vametco is fully expanded (assuming US\$45/kg long-term V price). We consider this is an undemanding valuation given Vametco's multi-decade reserve life and the prospect of further growth to come, including the acquisition of Vanchem (not yet incorporated in our base-case forecasts) and its subsequent integration and expansion.

Valuation

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

		Unrisked US\$m	Risk multiple	Risk US\$m	Risk GBP/s
Vametco (BMN attributable)	NPV _{10%}	459	1.00x	459	33.1
Mokopane (BMN attributable)	NPV _{10%}	308	0.25x	77	5.5
Brits	nominal	25		25	1.8
AfriTin Mining (9.5%)	market	2		2	0.2
Lemur Resources	nominal	10		10	0.7
Corporate G&A	NPV _{10%}	(43)		(43)	(3.1)
EV		761		530	38.2
Cash (at 30/06/2019)		66		66	4.8
NAV		827		596	43.0

*Assumes long-term (from 2020) US\$45/kg V price and R14.00:US\$1 FX rate Source: ARC estimates

Figure 2: 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	9	24	39	54	70	85	101
	13.00	11	26	41	56	72	87	103
	14.00	13	28	43	58	74	89	105
	15.00	15	29	45	60	75	91	106
	16.00	16	31	46	61	77	92	108

Source: ARC estimates

Figure 3: Risked NAV (GBP) sensitivity to V (flat from 2020) and discount rate

		Ferrovanadium price (US\$/kg V)						
		25	35	45	55	65	75	85
Discount rate	15%	10	20	30	41	51	61	71
	12%	12	24	37	50	63	76	89
	10%	13	28	43	58	74	89	105
	8%	15	33	51	70	89	107	126
	5%	19	45	70	96	123	149	175

Source: ARC estimates

Summary operating and financial forecasts

Figures 4-8 summarise our base-case forecasts for the next four years. We will update our forecasts once guidance on the operating economics of Vanchem and the planned integration with Mokopane is provided. However, our preliminary analysis indicates Vanchem could be around 25% accretive to EBITDA next year, and around 45-50% accretive to EBITDA across 2021-22 (by which time we believe Mokopane could be contributing ore feed).

Figure 4: Summary Vametco operational forecasts and macro assumptions

		2017*	2018	2019E	2020E	2021E	2022E
Vametco vanadium production	t V	2,649	2,560	2,850	3,400	4,200	4,500
V ₂ O ₅ equivalent	t	4,729	4,571	5,088	6,069	7,498	8,034
Ferrovandium market price assumption	US\$/kg V	32.60	81.20	49.00	45.00	45.00	45.00
Cash production costs (on-site costs & freight)	US\$/kg V	16.42	19.65	19.20	17.10	15.34	15.00
Total cash costs (incl royalties, marketing & G&A)	US\$/kg V	20.94	31.09	25.91	23.16	21.22	20.80
Operating cash margin	%	30%	59%	47%	49%	53%	54%
All-in costs (incl depreciation)	US\$/kg V	20.96	33.44	28.04	25.03	22.74	22.07
South African Rand	ZAR:USD	13.30	13.20	14.00	14.00	14.00	14.00

*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*	2018	2019E	2020E	2021E	2022E
Revenue	US\$m	2.8	192.1	139.7	153.0	189.0	202.5
Operating costs (incl depreciation)	US\$m	(1.4)	(65.3)	(67.7)	(72.1)	(80.7)	(83.9)
Other income	US\$m	0.0	7.4	0.9	0.9	1.2	1.2
Marketing, G&A and other costs	US\$m	(5.3)	(39.1)	(19.7)	(20.5)	(22.3)	(23.0)
Operating profit/(loss)	US\$m	(3.9)	95.2	53.1	61.3	87.1	96.9
Net finance costs	US\$m	(1.0)	0.8	(0.6)	(0.6)	(0.3)	0.0
Share of profit/(loss) from associates*	US\$m	4.7	0.0	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	0.0
Tax	US\$m	(0.0)	(37.6)	(16.7)	(19.0)	(26.2)	(37.9)
Net profit/(loss)	US\$m	(0.9)	49.0	35.8	41.8	60.7	59.0
Minority interests	US\$m	(0.3)	(18.8)	(11.2)	(12.7)	(17.5)	(17.0)
Attributable net profit/(loss)	US\$m	(1.2)	30.2	24.6	29.1	43.2	42.0

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

Source: ARC estimates

Figure 6: Summary Bushveld Minerals consolidated cash flow statement

		2017*	2018	2019E	2020E	2021E	2022E
Operational CF before WC changes	US\$m	(3.8)	70.3	42.4	48.7	67.4	64.7
Working capital changes	US\$m	(1.5)	(25.4)	8.9	(1.4)	(5.9)	(2.4)
Cash flow from operations	US\$m	(5.3)	44.9	51.3	47.2	61.4	62.3
Capex	US\$m	0.0	(11.2)	(9.8)	(15.0)	(6.5)	(3.0)
Other	US\$m	4.4	(17.1)	(2.9)	(2.1)	(20.2)	0.0
Cash flow from investing activities	US\$m	4.4	(28.3)	(12.6)	(17.1)	(26.7)	(3.0)
Equity issue and warrant exercises	US\$m	11.1	23.1	0.0	0.0	0.0	0.0
Net borrowings	US\$m	(0.2)	(6.9)	0.0	0.0	0.0	0.0
Dividends to minorities	US\$m	0.0	0.0	0.0	0.0	0.0	(32.6)
Other	US\$m	0.0	0.0	(0.6)	(0.6)	(0.3)	0.0
Cash flow from financing activities	US\$m	10.9	16.2	(0.6)	(0.6)	(0.3)	(32.6)
Increase/(decrease) in cash	US\$m	10.0	32.9	38.2	29.6	34.4	26.8

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

Source: ARC estimates

Figure 7: Summary Bushveld Minerals consolidated balance sheet

		2017*	2018	2019E	2020E	2021E	2022E
Cash	US\$m	9.7	42.0	80.2	109.8	144.2	170.9
P,P&E	US\$m	44.4	47.9	51.6	60.2	60.3	57.6
Intangible assets	US\$m	60.9	57.2	57.9	57.9	57.9	57.9
Other assets	US\$m	45.6	63.6	51.1	53.6	59.6	62.1
Total assets	US\$m	160.7	210.6	240.8	281.5	322.1	348.5
Payables	US\$m	20.2	20.2	16.7	17.8	50.4	60.4
Debt	US\$m	7.8	0.0	0.0	0.0	0.0	0.0
Other liabilities	US\$m	25.3	30.8	31.9	33.1	13.3	13.3
Total liabilities	US\$m	53.4	51.0	48.6	50.8	63.7	73.8
Shareholders' equity	US\$m	70.9	129.9	151.3	177.1	187.2	219.3
Non-controlling interests	US\$m	36.4	29.7	40.9	53.6	71.1	55.5
Total equity	US\$m	107.2	159.6	192.2	230.7	258.3	274.8
Total liabilities & equity	US\$m	160.7	210.6	240.8	281.5	322.1	348.5

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

Source: ARC estimates

Figure 8: Key financial measurements and ratios

		2017E*	2018	2019E	2020E	2021E	2022E
EBITDA	US\$m	0.9	101.2	59.2	67.7	93.5	102.6
EBITDA margin	%	30%	53%	42%	44%	49%	51%
EBIT	US\$m	0.1	85.9	53.1	61.3	87.1	96.9
EBIT margin	%	3%	45%	38%	40%	46%	48%
EPS	US\$/sh	(0.00)	0.03	0.02	0.03	0.06	0.06
Net profit margin	%	na	16%	18%	19%	23%	21%
Free cash flow	US\$m	(1.0)	16.7	38.7	30.1	34.7	59.3
Net cash/(debt)	US\$m	1.9	42.0	80.2	109.8	144.2	170.9
EV/EBITDA (fully consolidated)	x	na	2.2	3.7	3.3	2.4	2.2
EV/EBITDA (equity attributable)	x	na	3.0	5.2	4.5	3.3	3.0
P/E	x	na	8.9	11.7	9.9	4.1	4.3
FCF yield	%	na	5.8%	13.5%	10.5%	12.1%	20.6%

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

Source: ARC estimates

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