

Bushveld Minerals*

BMN LN

BUY

Valuation 80p

30 September 2019

Stock Data

Ticker	BMN LN
Share Price:	21p
Market Cap:	£235m

Price Chart



Bushveld enjoys strong sales in first half despite pullback in vanadium prices

Bushveld Minerals owns 74% of Vametco, an integrated vanadium mining, processing and technology business and is buying 100% of Vanchem. 26% of Vametco held by a BEE group. **Bushveld Energy** (84%) is developing vanadium redox batteries for grid use in South Africa.

- Bushveld Minerals report for the first half is significantly ahead of our expectations.
- Revenue pulled back to \$78m vs \$83.7m yoy as vanadium prices collapsed in H1 vs H1'18.
- Sales were supported by premiums for its 'Nitrovan' and a short lag in prices received.
- Operating profit also pulled back to \$37.5m vs \$42.2m yoy on higher sales and distribution costs, admin expenses and other mine operating costs, eg better geological control.
- EBITDA came in at \$41m vs \$42.8m yoy as Bushveld implemented plans to improve costs
- Post-tax-profit came in at \$30.8m vs \$28.5m yoy principally driven by a \$5.9m 'movement in earnout estimate', a non-cash item relating to a deferred consideration to Yellow Dragon for the acquisition of Vametco which is based on the company's estimated EBITDA in 2020 which is payable in 2021.
- **Net Cash generated** from operating activities rise to \$34.7m vs \$21.4m yoy boosted by higher pre-tax profits and positive adjustments of \$3.5m for depreciation and a \$4.8m change in working capital.

Net cash was \$66.1m at end June vs \$42.1m at end-December.

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Vametco 74% & Vanchem 100%		2018A	2019e	2020e	2021e	2022e
Ferro Vanadium	US\$/kg	81.2	45.0	45.0	45.0	45.0
Vanadium sales	mtV	2573	3060	4370	5432	6422
Sales	US\$m	192.1	133.1	188.7	234.6	277.3
Operating costs	US\$m	65.0	81.4	111.9	135.1	156.7
Operating costs	US\$/kg	25.3	26.6	25.6	24.9	24.4
Operating profit	US\$m	95.2	51.7	76.8	99.4	120.6
Pre-tax profit	US\$m	86.6	43.3	71.7	95.2	116.0
Tax	US\$m	37.6	12.3	20.4	27.1	33.1
Post-tax profit	US\$m	49.0	31.0	51.2	68.1	82.9
EPS	US\$/c/s	2.9	2.8	4.6	6.1	7.5
PE	x	7.1	11.2	6.8	5.1	4.2
EV/EBITDA	x	4.4	7.1	4.8	3.7	3.1
EBITDA	US\$m	95.2	51.7	76.8	99.4	120.6
Free Cash Flow	US\$m		22.5	44.7	64.1	88.3
Vametco Cash Flow	US\$m	74%	31.8	36.5	43.7	56.0

SP Angel forecasts: Figures based on 100% of Vametco plant. Bushveld now hold an effective 74% of the Vametco plant. Bushveld hold 100% of Vanchem. *An SP Angel mining analyst and nomad have visited the Vametco in South Africa.

*SP Angel acts as Nomad & Broker to Bushveld Minerals.

Bushveld Cont...

- Investors should note that Bushveld completed its acquisition of Vametco from Evraz on 21 December 2017 for \$11.1m consisting of \$5.7m cash payments and consideration shares representing 6.25% of the enlarged issued share capital including a deferred payment to Yellow Dragon and a payment of following publication of 2020 Accounts calculated as 4.5 EBITDA x 5.91%. Yellow Dragon represents a local investor
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- **EPS** rose to \$1.92/S from \$1.57/s yoy
- **Currency** translation differences resulted in a \$3.7m gain vs a loss of \$10.8m yoy
- **Vanchem acquisition:** The net cash position indicates to us that Bushveld will be able to cover the Vanchem deal out of its cash reserves without the need to recourse to debt facilities. The deal is due to complete at end October.
- Bushveld will complete the Vanchem acquisition from internal cash flow and facilities at end-October and will complete the acquisition without recourse to equity capital markets.
- **Ferrovandium prices** averaged \$56.3/kg in H1 vs \$65.5/kg a year earlier.
- Prices now average \$48.2/kg for the year to date indicating that earnings are likely to be just under half that seen in H1.
- **Production** was 1,393mtV in H1 vs 1,360mtV yoy highlighting a return to more normal working and an end to the disruption seen in H2 last year.
- **Metal Sales:** Vametco sold some 1,115mtV of Nitrovan indicating a price of \$66.6mtV which is substantially higher than average price through the first half.
- This is due in part to a lag in pricing which saw some H1 Nitrovan sales sold at higher prices seen at end 2018. Nitrovan is also a premium product which sells for a premium to other standard vanadium products due to its nitrogen content.
- The AMCU union has now signed a three-year wage and benefit deal running to end-June 2022.
- **Production targets:**
 - 2,800-2,900mtV - for 2019 (Vametco only) We note the full year should include some production from Vanchem assuming the acquisition completes on time.
 - 3,400mtV – 2020 including Vanchem
 - 4,200mtV – run rate sometime in 2022.
 - Target for 8,400mtVpa with nameplate capacity of 10,000mtVpa as Vanchem restarts idled furnaces
- **Costs:**
 - Improvements in the mine and its scheduling, grade control into the kiln particularly in the reduction of silica creates better overall recoveries and costs and improves the operation in general.
 - **Cash cost guidance \$18.90-19.50kgV** for 2019. First half costs have been revised to \$19.20/mtV from \$17.40/mtV. This is due to changes in the way the cost figures are being calculated.
 - The result of the increase in costs is to reduce the H1 EBITDA to \$42.3m from \$48.6m arising from intercompany costs which were incorrectly capitalized to inventory costs.
- **China rebar standards:** better enforcement of the new standards is expected following a nationwide inspection of steel mills from July to September. This should significantly raise vanadium consumption. Niobium substitution is not expected to take much demand from vanadium at current prices.

- **Earnings revision:** We are adjusting our assumed price for ferro-vanadium to \$45/mtV from \$50/mtV for the year. This causes our full-year forecasts for Sales to pull back to \$133m from 147.8m and for our EBITDA forecast to reduce to \$51.7m from \$77.3m.
- **Valuation:** our valuation for Bushveld is based on our Net Present Value of our forecast cash flows for Vametco, Vanchem and Bushveld Energy plus more modest valuations on Bushveld's stakes in AfriTin, Lemur Resources, P-Q Iron & Titanium.
- Our valuation pulls back to 80p from 92p previously principally on our reduction our assumption of the price for ferrovanadium to \$45/kgV from \$50/kgV plus some adjustments for costs and currency rates.
- **Bushveld Energy:** Bushveld report the Vanadium Redox Flow Battery 'VRFB' installed at Eskom, the South Africa state power utility is operating fully and the company is pushing ahead with planning for its own Solar Mini-Grid project at Vametco. Bushveld Energy is building a new vanadium electrolyte plant to supply VRFB batteries and is also looking to work on plans for the construction of VRFB batteries to support growing solar and wind projects in the region.

Conclusion: Bushveld performed well through the first half despite the pullback in the price of ferrovanadium. The business now looks well set to complete the Vanchem acquisition and to continue to grow production. We look forward to further news following the Vanchem acquisition. We also look forward to further news on the rollout of VRFB to the market.

**SP Angel act as Nomad and broker to Bushveld Minerals.*

Note: Bushveld Minerals controls and holds an effective 84% of Vametco and has agreed to buy 100% of Vanchem.

**An SP Angel mining analyst and nomad have visited the Vametco vanadium mine and processing facilities in South Africa.*

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Recommendations are based on a 12-month time horizon as follows:

Buy - Expected return >15%

Hold - Expected return range -15% to +15%

Sell - Expected return < 15%