

Non-Independent Research

A MiFID II compliant note

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

30 December 2020

Stock Data

Ticker	BMN LN
Share Price:	19.90
Market Cap:	£237m

Price Chart



Vanadium price rise in China suggests tightening of supply chain

Bushveld is an integrated vanadium mining, processing and technology businesses. The South African group owns 74% of Vametco and 100% of the Vanchem. Bushveld Energy (84%) is developing vanadium redox batteries for grid use in SA.

- Bushveld Minerals shares are, at long last, recovering on news of vanadium price rises in Europe as well as the US and China.
- Strong demand in China is drawing vanadium pentoxide and ferro-vanadium away from the West and into China lengthening and tightening supply chains.
- The shipment of so much vanadium into China may potentially lead to shortages in Europe and possibly the US as stimulus and other construction projects start up in the new year.
- Better enforcement of recently imposed minimum vanadium content levels in China may also lead to increasing take up of vanadium for structural steel used in government-financed projects as failure to comply could result in harsh punishment.
- **Vanadium prices:**
 - Vanadium pentoxide prices jump 4.3% in Europe to \$5.3-5.5/lb V2O5 in the week before Christmas
 - Ferro-vanadium prices also rose in Europe to \$25-25.5/kgV
- The European price rise follows similar price rises for vanadium pentoxide in China with steel producers and traders have also raising prices for steel billet and other products.

Research

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(Dec year end)		2018	2019E	2020E	2021E	2022E	202
FeV price	US\$/kg	81	54	25	35	40	40
Vanadium Production	mtV	2,560	2,833	3,632	4,442	5,658	6,484
Vanadium Sales	mtV	2,573	2,392	3,682	4,692	5,908	6,534
Sales ⁺	US\$m	192.1	116.7	88.4	157.9	227.3	251.6
Cash Op costs	US\$m	-65.3	-56.2	-86.0	-92.0	-113.9	-128.0
Unit Cash Op costs ⁺	US\$/kg	25.5	20.6	23.7	20.7	20.1	19.7
Operating profit	US\$m	95.2	22.2	-26.5	34.5	77.2	84.3
Pre-tax profit	US\$m	86.6	83.2	-30.6	31.7	72.0	79.1
Tax	US\$m	-37.6	-13.2	2.0	-5.6	-16.0	-17.2
Post-tax profit	US\$m	49.0	70.1	-28.6	26.2	56.0	61.9
EPS	US\$/c/s	2.90	5.53	-1.82	1.76	3.76	4.16
PE	x	5.7	2.6	-	9.6	4.5	4.0
EV/EBITDA	x	1.3	4.4	-	6.7	3.2	2.9
EBITDA	US\$m	101.2	36.3	-12.3	40.5	85.1	92.8
Free Cash Flow (100%)	US\$m	32.2	-22.3	25	35	40	40

SP Angel forecasts: Figures based on 100% of Vametco and Vanchem. Bushveld hold an effective 74% of Vametco.

⁺Vanadium sales see a 8-12 week lag when product is delivered to final customer. This applies for all the sales

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Bushveld Continued...

- China is importing increasing quantities of vanadium and other steel alloys to meet strong demand for steel products.
- The recent fall in steel inventories in China across most if not all products is down to strong demand for transport infrastructure and new extra-urban hub construction
- **FOREX:** The year has been a rollercoaster ride for the South African rand.
- The currency started the year at ZAR 14.2/USD falling to ZAR 19.2/USD before clawing back almost all its losses to SAR 14.6/USD today
- The rand has strengthened on the back of high commodity prices and the continuation of exports from South Africa has a substantial impact on company earnings forecasts and our valuation based on these earnings.
- **Valuation:** We continue to adjust our model according to currency and commodity price conditions.
- **Assumptions:** We use the current South African rand rate for our forecasts for 2021 and beyond tempering our earnings forecasts for future years.
- We continue to forecast a higher ferro-vanadium price of \$35/kgV for 2021 and \$40/kgV thereafter due to the expense of bring in new vanadium production to meet rising global demand.
- We have adjusted our assumption for vanadium production to 3,632mtV in line with company guidance.
- We have also adjusted our total vanadium sales estimate to 3,682mtV due to the impact of lengthened shipping and sales times for more material going to meet stronger demand in China.
- If demand and prices in Europe rise significantly next year then much of the inventory for this year may be reported in the 2021 sales figures.

Conclusion: We believe significant new demand for vanadium electrolyte will start to come into the market for Vanadium Redox Flow Batteries over the next few years and that this should support vanadium prices at higher levels as steel producers compete with this new form of demand.



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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%