

21 July 2021

BMN LN Mining & Metals



Source: LSE

Market data

Price (p)	11.7
Valuation (p)	24.0
12m High (p)	24.5
12m Low (p)	10.2
Shares (m)	1,192
Mkt Cap (£m)	139.0

Company summary

Bushveld Minerals is an AIM-quoted vanadium development and production company. The group's key assets are the Vametco and Vanchem primary vanadium producing operations in South Africa. Bushveld also participates in the development of the downstream, and fast-growing, vanadium-redox flow battery market through its majority-owned Bushveld Energy subsidiary.

Key forecasts

	2020	2021e	2022e
Sales (\$m)	90.0	132.2	195.7
EBITDA (\$m)	(14.9)	10.0	55.4
EPS (\$/sh)	(0.03)	(0.01)	0.01
FCF (\$m)	(30.5)	(11.4)	17.5
EV/EBITDA (x)	na	22.7	4.1
EV/EBITDA adj* (x)	na	39.5	4.9
P/E (x)	na	na	13.3
FCF yield (%)	na	na	9.2
Net debt (\$m)	33.7	44.5	29.2

* Equity-attributable adjusted EBITDA

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Bushveld Minerals*

Vametco production rates trending back up

Bushveld's consolidated vanadium production increased by close to 30% in Q2 2021, underpinned by improved operational stability at Vametco following a maintenance shutdown that adversely impacted output in the preceding quarter. If maintained across the second half, current rates at both Vametco and Vanchem put the group well on course to meet its recently revised full-year production target of 3,400-3,600t. With vanadium prices having recovered strongly from last year's lows, we are optimistic this production level will see a return to positive EBITDA in 2021. Successful execution of production growth plans – Bushveld is targeting a 5,000-5,400t pa rate by the end of 2022, and >8,000t pa longer-term – should drive further margin growth thereafter.

- ▶ **Improved operational performance at Vametco:** Q2 production at Vametco totalled 593t, up 50% from Q1 when the operation was shut down for 35 days for vital maintenance. Encouragingly, May and June saw 278t and 261t produced respectively, reflecting much improved operational stability and performance following the Q1 downtime. Allowing for further planned maintenance work to maintain this improved stability, Bushveld is guiding an average monthly production rate of around 240t at Vametco for the remainder of the year. Vanchem's production was in-line with the preceding quarter at 293t. Bushveld expects Vanchem to maintain its current monthly rate of c90-100t, supported by the provision of feedstock material sourced from the upper seam resource at Vametco.
- ▶ **Sales volumes steady despite logistic pressures:** Recent civil unrest in South Africa has thankfully not impacted production, though Bushveld has experienced logistic delays in getting final product to the port. These delays have been resolved, though pandemic-related general logistic pressures on exports remain. Bushveld's sales increased by 4% Q-on-Q, to 820t, and the group expects to maintain export volumes at a similar rate through Q3 2021.
- ▶ **On course to hit full-year targets:** Consolidated Q1 production of 886t takes H1 output to 1,574t, down 5% vs H1 2020 as a result of the maintenance shutdown. However, if the now improved rates at Vametco can be maintained, and if Vanchem continues its steady performance as refurbishment work continues, H2 production should be materially higher. We therefore think Bushveld is on course to meet its recently revised full-year production target of 3,400-3,600t.
- ▶ **Vanadium market firming:** FeV averaged US\$36/kg in Q2, up 17% on Q1, and is currently cUS\$40/kg. We expect pricing to remain firm for the remainder of the year on robust demand but also a potential tightening of supply given Chinese steel slag co-producers are already operating around capacity. We are therefore hopeful of a return to profitability at Bushveld's consolidated EBITDA level this year despite Y-on-Y flat production (2020 results were adversely impacted by a more than 50% Y-on-Y slide in FeV prices to \$23/kg). With the refurbishment of Kiln 3 at Vanchem due for completion by the end of 2021, we expect higher production to drive a much more material growth in earnings from next year.
- ▶ **Production growth key to margin expansion:** Bushveld's assets hold potential for far greater growth however, and studies are underway at both Vametco and Vanchem of the feasibility to increase group production to 6,400-6,800t pa in the medium term and to c8,400t pa longer term. Scheduled for completion in Q4 2021, these studies will determine the most capital efficient sequencing of expansion between the two businesses. Our preliminary analysis points to the potential for these expansion initiatives to grow annualised EBITDA to over US\$100m within the next few years, assuming a long-term FeV price in line with current pricing levels (to which we consider there to be scope for upside).

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