

27 October 2021

BMN LN Mining & Metals

Market data

Price (p)	10
Valuation (p)	20
12m High (p)	23
12m Low (p)	9
Shares (m)	1,192
Mkt Cap (£m)	120

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	118.8	189.8
EBITDA (\$m)	(14.9)	(5.0)	38.2
EPS (\$/sh)	(0.03)	(0.02)	0.00
FCF (\$m)	(30.5)	(40.0)	9.1
EV/EBITDA (x)	na	na	5.7
FCF yield (%)	na	na	5.6
Net debt (\$m)	33.7	61.3	56.5

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Bushveld Minerals*

Net debt reduced on repayment of convertible notes

Settling in shares the majority of the remaining US\$11.5m of convertible loan notes from the Vanchem acquisition is a positive outcome at a critical juncture in Bushveld's evolution. The renegotiated terms allow the group to lower its debt whilst preserving precious cash resources for its more value-adding production growth initiatives. Bushveld's recent Q3 update indicates that both Vametco and Vanchem are well on course to achieve their respective full-year production and cost targets if the quarterly rates are sustained through to the end of the year. If vanadium holds around recent levels (and we see scope for firmer prices), we think this should see a return to operational profitability in H2 2021. Successful execution of production growth plans is key to driving more substantial margin growth thereafter, and we are encouraged that re-commissioning of Kiln 3 at Vanchem – which will more than double that plant's production run rate from current levels – remains on schedule for H1 2022. Assuming recent operational stability at Vametco is sustained, we think this could see the group exit next year with an annualised production run-rate of 5,000-5,400t pa and a cash cost base of under \$25/kg V.

- ▶ **Loan note repayment terms successfully renegotiated:** Bushveld has reached agreement with Duferco on revised repayment terms for the US\$11.5m remaining balance of the convertible notes due 8 November 2021 (which formed part of the US\$53.5m Vanchem acquisition consideration). Duferco has agreed to convert US\$9m (up from the previously indicated sum of US\$6.5m) of the principal outstanding into new Bushveld shares at a 5% discount to Bushveld's prevailing 10-day VWAP leading up to the conversion date. Bushveld will therefore only have to settle in cash the US\$2.5m balance (plus accrued interest of US\$0.5m). This will reduce Bushveld's gross debt position (as referenced at its last published balance sheet date of mid-2021) to US\$74m, of which US\$29m comprised the Orion PFA (which is repaid through vanadium production) and US\$35m comprised convertible loan notes to Orion (which do not mature until late 2023).
- ▶ **Vanadium production on upwards trend:** Minimising the cash component of the note repayment is a welcome outcome, preserving precious cash resources (US\$25m at end September) as Bushveld focusses on operational stability at Vametco whilst delivering an expansion of output at Vanchem (thereby lowering the latter's unit costs). The group's recent Q3 operational update revealed positive news on both fronts. Group production increased by 19% Q-on-Q, to 1,056t, driven by a further gain in quarterly rates at Vametco following maintenance downtime earlier in the year. Vametco contributed 765t of the total, up 29% on Q2 as the improved plant performance seen in the latter weeks of the previous quarter were maintained across the full period. Vametco's Q3 performance takes its production for the first nine months of the year to 1,753t. Annualised, this puts it on course to achieve Bushveld's full-year production guidance of 2,300-2,400t (with the top-end of the range potentially beatable if the Q3 rate is maintained in Q4). Vanchem contributed 291t, in line with its performance in both Q2 2021 and Q3 of last year. This takes Vanchem's total for the first nine months to 876t, which annualised would see it meet guidance of 1,100-1,200t.
- ▶ **Unit costs falling:** C1 cash costs at Vametco fell by 13% Q-on-Q, to US\$22.4/kg, reflecting the higher volumes and a slightly weaker South African Rand. Bushveld is maintaining its full-year cost guidance for Vametco of US\$23.7-24.2/kg. The weaker Rand also helped reduce C1 costs at Vanchem, by 3% to US\$27.3/kg. Given its relatively stable production status, we think Vanchem remains well on course to at least meet Bushveld's full-year cost guidance for the operation of US\$30.3-31.1/kg.
- ▶ **Full-year estimates remain in sight:** Production and operating costs at both Vametco and Vanchem are comfortably tracking our full-year forecasts. We therefore think our unchanged 2021 financial estimates – which assume an average vanadium price in-line with the year-to-date average – remain achievable if sales volumes normalise to come in-line with production levels. We note that sales volumes in the first nine months were 7% below production, reflecting logistical challenges arising from the COVID-19 pandemic and social unrest in South Africa, as well as disruptions at local ports in July and August. These challenges are now abating, and Bushveld said it expects sales volumes to recover going forward as warehouse stocks are replenished in its main target markets.
- ▶ **Growth initiatives key to longer-term margin expansion:** With operational stability now significantly improved (which we think should see a return to operational profitability in H2 2021), increasing production rates will be key to more material margin expansion given the high fixed component of costs at both Vametco and Vanchem. Bushveld is targeting a more than doubling of Vanchem's production run rate to a sustainable level of 2,600t pa by the end of 2022 through the re-commissioning of one of the plant's two currently mothballed roasting kilns (which has the largest capacity of the three kilns at Vanchem). This will underpin an increase in group production to a sustainable 5,000-5,400t pa by the end of 2022, whilst simultaneously reducing Vanchem's unit costs to Vametco-like levels. We think this will drive robust EBITDA growth next year and beyond. Technical studies of the potential for further optimising Vametco and Vanchem to lift group production to 6,400-6,800t pa in the medium term are due by the end of this year, and Bushveld has a goal of growing output to c8,400t pa over the longer term. If achieved, we think the latter target could see EBITDA grow to >US\$100m pa over the longer term, assuming a US\$40/kg realised V price.

Figure 1: Summary operational forecasts and macro assumptions

		2019	2020	2021E	2022E
Vanadium production	t V	2,931	3,631	3,500	4,800
Sales volumes	t V	2,392	3,842	3,500	4,906
Average realised vanadium price (FeV basis)	US\$/kg V	48.9	23.4	34.0	38.7
C1 cash production costs	US\$/kg V	18.1	19.4	26.4	24.6
All-in sustaining cash costs*	US\$/kg V	37.0	29.0	37.5	33.2
South African Rand	ZAR:USD	14.40	16.46	14.50	14.50

*Including royalties, selling & distribution costs, G&A and sustaining capex, but excluding depreciation and financing costs Source: ARC estimates

Figure 2: Summary Bushveld Minerals consolidated income statement

Year-end 31 Dec		2019	2020	2021E	2022E
Revenue	US\$m	116.5	90.0	118.8	189.8
Cost of sales	US\$m	(56.2)	(91.3)	(112.7)	(139.7)
Other income	US\$m	0.9	2.3	2.5	2.4
Selling and distribution costs	US\$m	(7.6)	(4.8)	(7.3)	(10.3)
Administrative and other costs	US\$m	(31.4)	(29.0)	(24.7)	(22.3)
Operating profit/(loss)	US\$m	22.3	(32.8)	(23.3)	20.0
Net finance costs	US\$m	1.9	(4.7)	(5.6)	(7.8)
Exceptional non-cash items	US\$m	59.1	(0.2)	0.0	0.0
Profit/(loss) before tax	US\$m	83.3	(37.7)	(28.9)	12.2
Tax	US\$m	(14.0)	0.5	2.1	(8.7)
Net profit/(loss)	US\$m	69.2	(37.2)	(26.8)	3.5

Source: ARC estimates

Figure 3: Summary Bushveld Minerals consolidated cash flow statement

		2019	2020	2021E	2022E
Operational CF before WC changes	US\$m	23.9	(18.4)	(5.0)	29.6
Working capital changes	US\$m	4.6	1.3	(4.2)	(0.1)
Cash flow from operations	US\$m	28.5	(17.1)	(9.1)	29.4
Capex and investments	US\$m	(17.7)	(11.2)	(46.1)	(20.1)
Other	US\$m	(32.0)	(2.2)	15.2	(0.3)
Cash flow from investing activities	US\$m	(49.7)	(13.3)	(30.9)	(20.3)
Net borrowings	US\$m	18.6	49.4	(5.2)	(7.9)
Finance costs and other	US\$m	(5.3)	(2.0)	4.3	(4.4)
Cash flow from financing activities	US\$m	13.3	47.4	(0.9)	(12.3)
Increase/(decrease) in cash	US\$m	(8.0)	17.0	(41.0)	(3.1)

Source: ARC estimates

Figure 4: Summary Bushveld Minerals consolidated balance sheet

		2019	2020	2021E	2022E
Cash	US\$m	34.0	50.5	9.6	6.4
P,P&E	US\$m	185.3	167.6	175.7	176.6
Intangible assets	US\$m	59.4	59.0	59.0	59.0
Other assets	US\$m	56.1	78.8	88.5	92.2
Total assets	US\$m	334.8	355.9	332.8	334.2
Payables	US\$m	15.7	22.1	21.8	24.4
Debt	US\$m	41.8	85.8	70.8	62.9
Other liabilities	US\$m	36.2	34.0	29.4	29.0
Total liabilities	US\$m	93.7	141.9	122.0	116.3
Total equity	US\$m	241.1	214.0	210.8	217.9
Total liabilities & equity	US\$m	334.8	355.9	332.8	334.2

Source: ARC estimates

Figure 5: Key financial measurements and ratios

		2019	2020	2021E	2022E
Shares in issue	m	1,153	1,192	1,258*	1,258*
EBITDA	US\$m	32.6	(14.9)	(5.0)	38.2
EBITDA margin	%	28%	na	na	20%
EPS	US\$/sh	0.05	(0.03)	(0.02)	0.00
Net profit margin	%	53%	na	na	na
Free cash flow	US\$m	(21.3)	(30.5)	(40.0)	9.1
Net debt/(cash)	US\$m	7.7	33.7	61.3	56.5
EV/EBITDA	x	6.7	na	na	5.7
FCF yield	%	na	na	na	5.6%

*Assumes US\$9m of Duferco notes are converted in Nov 2021 at 10p per share.

Source: ARC estimates

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