

27 April 2022

BMN LN Mining & Metals


Source: Bloomberg

Market data

Price (p)	10.1
Valuation (p)	20.0
12m High (p)	18.3
12m Low (p)	8.3
Shares (m)	1,265
Mkt Cap (£m)	127.8

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	106.3	180.0
EBITDA (\$m)	(14.9)	(5.8)	38.6
EPS (\$/sh)	(0.03)	(0.02)	0.00
FCF (\$m)	(30.5)	(42.2)	16.3
EV/EBITDA (x)	na	na	5.0
P/E (x)	na	na	35.5
FCF yield (%)	na	na	10
Net debt (\$m)	33.7	55.7	43.2

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Bushveld Minerals*

FY targets maintained as Vanchem Kiln 3 start nears

Q1 2022 group vanadium production was marginally up on the preceding quarter, higher volumes at Vametco partially offset by temporarily lower output at Vanchem. Bushveld has now put together four successive quarters of consistently stable performance since the interruptions that blighted Q1 2021, justifying the time and money invested in operational improvement initiatives over the past couple of years. 2022 full year production guidance of 4,200-4,400t remains in sight given the imminent start of Kiln 3 at Vanchem (which will significantly increase volumes at the latter and see Bushveld exit the year with a sustainable group production run rate of 5,000-5,400t pa). This should be accompanied by an incremental reduction in unit costs, which together with current vanadium price strength should drive a return to material profitability this year. But Bushveld's assets hold even greater potential, the unlocking of which is key to more substantial margin growth over the longer term given vanadium market volatility. The group is finalising options for its growth path to 8,000t pa of installed capacity, with an announcement due soon. We believe visibility on the structure and funding plan for this longer-term growth plan will be key to triggering upwards re-rating for this undervalued and uniquely positioned vanadium play.

- ▶ **Q1 operating results mixed:** Q1 group vanadium production of 972t was marginally (1%) above the previous quarter's level, higher output at Vametco largely offset by lower output at Vanchem. The former contributed 749t, up 7% Q-on-Q on the back of higher throughput, underpinned by the continuing operational stability of the plant achieved last year. The latter operation contributed 224t, down 15% Q-on-Q due to wear-and-tear of the aging Kiln 1 (which is set to be supplanted by the refurbished – and larger – Kiln 3, due online next month), teething issues in the transition to ore feed from the Upper Seam project at Vametco (now resolved) and power load shedding. Reflected the differing production performances, Vametco's C1 cash cost was 4% lower versus the preceding quarter at US\$22.1/kg V, while Vanchem's weighted average cash cost was up 5% at US\$38.6/kg.
- ▶ **2022 guidance maintained:** Bushveld expects Vametco's hard-won operational stability to be maintained going forward, with 2022 guidance of 2,450-2,550t V production at a C1 cash cost of US\$22.7-23.5/kg unchanged. Despite Vanchem's slightly weaker performance Q-on-Q, the group is similarly maintaining its full-year production target of 1,750-1,850t for that operation, annual production always expected to be weighted towards the second half following the commissioning of Kiln 3 this quarter (the new Kiln is expected to more than double Vanchem's annualised run rate – to 2,600t – by the end of the year). Bushveld expects unit costs to trend down as volumes rise and is thus maintaining its full-year cost guidance for Vanchem at US\$27.7-28.4/kg. Vanchem's unit costs are likely to remain comparatively higher than Vametco's owing to the additional costs associated with achieving Vanchem's more varied product offering, which in turn can unlock commensurate pricing premiums.
- ▶ **Raising our estimates on V price strength, but mindful of logistics headwinds:** Our unchanged 2022 full-year production and cost estimates are within guidance range, which we believe is still very much achievable if operational stability is maintained at Vametco and the transition to Kiln 3 at Vanchem is delivered to schedule and unlocks the projected subsequent volume increases. However, we have lifted our 2022 earnings estimates on higher vanadium pricing assumptions following stronger-than-previously-anticipated market pricing year to date. FeV averaged US\$46/kg in Q1 2022, some 40% higher than in Q4 2021, and is currently trading at US\$49/kg (albeit down from mid-March's peak of US\$62/kg). Mindful of vanadium's notorious volatility, we are not marking-to-market our pricing assumptions but have raised our assumed 2022 group average received price by 8% to bring it line with our long-term assumption of US\$40/kg (which we believe is suitably conservative and supported by long-term fundamentals). This in turn increases our 2022 EBITDA estimate by 49%, to US\$39m, demonstrating Bushveld's leverage to vanadium price. Given our 2022 pricing assumption is 18% below current spot, the risks to our estimates may be weighted to the upside. However, aside from vanadium market volatility, downside risks include the potential for sales volumes to be adversely impacted by the current domestic and international supply chain challenges facing the group (Bushveld's vanadium product inventory grew by 3% to 850t in Q1, albeit part of the rise was sought given scheduled maintenance downtime at Vametco this coming June).
- ▶ **Long-term production growth plan close:** With operational stability attained, increasing production rates further is key to unlocking more substantial margin growth over the longer term. Our 20p/sh valuation incorporates a heavily risked NPV estimate (at US\$40/kg FeV) of an assumed expansion to 8,000t pa over the next five years (from the forecast 2022 exit rate of 5,000-5,400t pa). We look forward to further details on Bushveld's longer-term expansion plans being published imminently, which will help us firm up our valuation assumptions.

Figure 1: Summary operational forecasts and macro assumptions

		2019	2020	2021E	2022E
Vanadium production	t V	2,931	3,631	3,592	4,350
Sales volumes	t V	2,392	3,842	3,314	4,500
Average realised vanadium price (FeV basis)	US\$/kg V	48.9	23.4	32.1	40.0
C1 cash production costs	US\$/kg V	18.1	19.4	26.1	25.0
All-in sustaining cash costs*	US\$/kg V	37.0	29.0	36.3	34.4
South African Rand	ZAR:USD	14.40	16.46	14.77	15.25

*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	106.3	180.0
Cost of sales	US\$m	(56.2)	(91.3)	(102.9)	(129.6)
Other income	US\$m	0.9	2.3	2.5	2.3
Selling and distribution costs	US\$m	(7.6)	(4.8)	(6.5)	(9.4)
Administrative and other costs	US\$m	(31.4)	(29.0)	(23.0)	(22.0)
Operating profit/(loss)	US\$m	22.3	(32.8)	(23.6)	21.3
Net finance costs	US\$m	1.9	(4.7)	(5.7)	(7.3)
Exceptional non-cash items	US\$m	59.1	(0.2)	0.0	0.0
Profit/(loss) before tax	US\$m	83.3	(37.7)	(29.4)	14.1
Tax	US\$m	(14.0)	0.5	3.4	(4.2)
Net profit/(loss)	US\$m	69.2	(37.2)	(25.9)	9.8

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)	(6.1)	34.4
Working capital changes	US\$m	4.6	1.3	(7.0)	(1.1)
Cash flow from operations	US\$m	28.5	(17.1)	(13.1)	33.3
Capex and investments	US\$m	(17.7)	(11.2)	(43.0)	(16.7)
Other	US\$m	(32.0)	(2.2)	14.0	(0.3)
Cash flow from investing activities	US\$m	(49.7)	(13.3)	(29.0)	(17.0)
Net borrowings	US\$m	18.6	49.4	(5.2)	(7.6)
Finance costs and other	US\$m	(5.3)	(2.0)	5.3	(4.0)
Cash flow from financing activities	US\$m	13.3	47.4	0.1	(11.6)
Increase/(decrease) in cash	US\$m	(8.0)	17.0	(42.0)	4.7

Source: ARC estimates

Figure 4: Summary Bushveld Minerals consolidated balance sheet

		2019	2020	2021E	2022E
Cash	US\$m	34.0	50.5	15.0	19.7
P,P&E	US\$m	185.3	167.6	176.5	172.8
Intangible assets	US\$m	59.4	59.0	60.3	60.3
Other assets	US\$m	56.1	78.8	93.0	97.9
Total assets	US\$m	334.8	355.9	344.8	350.8
Payables	US\$m	15.7	22.1	22.8	23.6
Debt	US\$m	41.8	85.8	70.7	62.9
Other liabilities	US\$m	36.2	34.0	32.7	32.1
Total liabilities	US\$m	93.7	141.9	126.2	118.6
Total equity	US\$m	241.1	214.0	218.6	232.1
Total liabilities & equity	US\$m	334.8	355.9	344.8	350.8

Source: ARC estimates

Figure 5: Key financial measurements and ratios

		2019	2020	2021E	2022E
Shares in issue	m	1,153.0	1,192.2	1,259.8	1,261.3
EBITDA	US\$m	32.6	(14.9)	(5.8)	38.6
EBITDA margin	%	28	na	na	21
EPS	US\$/sh	0.05	(0.03)	(0.02)	0.00
Net profit margin	%	53	na	na	3
Free cash flow	US\$m	(21.3)	(30.5)	(42.2)	16.3
Net debt/(cash)	US\$m	7.7	33.7	55.7	43.2
EV/EBITDA	x	5.9	na	na	5.0
FCF yield	%	na	na	na	10

Source: ARC estimates

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