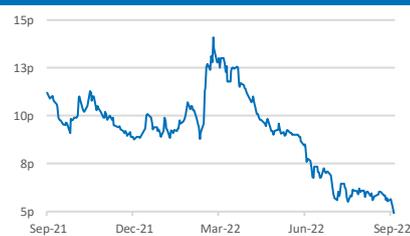


20 September 2022

BMN LN Mining & Metals

Market data

Price (p)	4.7
Valuation (p)	18.0
12m High (p)	14.1
12m Low (p)	4.7
Shares (m)	1,287
Mkt Cap (£m)	60.8

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

	2021	2022e	2023e
Sales (\$m)	106.9	164.4	210.3
EBITDA (\$m)	(9.9)	20.2	51.2
EPS (\$/sh)	(0.03)	(0.00)	0.01
FCF (\$m)	(29.2)	2.6	12.9
EV/EBITDA (x)	na	5.0	2.0
P/E (x)	na	na	10.4
FCF yield (%)	na	3.5	17.4
Net debt (\$m)	62.2	61.1	17.2

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Bushveld Minerals*

Year-exit target rate in sight despite Kiln 3 challenges

H1 was a mixed half for Bushveld, the continuing strong performance of Vametco offset by unexpected challenges associated with the commissioning and subsequent ramp up of Kiln 3 at Vanchem. The latter has prompted the group to reduce full-year group production guidance (with unit cost expectations increased somewhat), though we still expect positive EBITDA for the full-year and H2 capex and debt repayment obligations look adequately covered. The year-exit production rate target of 5,000-5,400t pa also still looks within sight, which should drive material improvement in margins and profitability in 2023. Thereafter, the option to expand production in stages to 8,000t pa could see a step-change in profit generation longer-term.

- ▶ **Interim results mixed:** Revenue for the six months to 30 June 2022 totalled \$76m, up 62% relative to H1 2021 on the back of a 59% increase in the average realised vanadium price and marginally (2%) higher volumes. Encouragingly, total group costs (including admin costs) were only slightly (5%) higher than the year-ago period, as higher energy and staff costs (the latter mainly due to annual wage increases and higher labour costs associated with the commissioning of Kiln 3 at Vanchem) were partly offset by favourable FX movements. Accordingly, the stronger V price environment translated to a return to positive EBITDA – adjusted EBITDA totalled \$16m, compared with an \$11m loss in H1 2021. Bushveld ended H1 2022 with a \$7m cash balance and net debt of \$74m (of which \$35m of the gross debt is the Orion production financing instrument, which is serviced through a portion of product sales).
- ▶ **H2 outlook – Vanchem Kiln 3 performance improving, but full-year guidance reduced:** Previously reported group production was 4% higher relative to H1 2021 as the continuing robust operational performance at Vametco offset lower-than-anticipated output at Vanchem owing to lower recoveries as Kiln 1 wound down, disruptions due to electricity load shedding and a slower-than-planned ramp up of Kiln 3 post commissioning. The latter has prompted Bushveld to revise down its full-year production guidance for Vanchem to 1,350-1,450t (from 1,750-1,850t previously), at a higher cash cost expectation of \$34.9-35.5/kg V (\$27.7-28.4/kg). However, the strong-year-to-date performance at Vametco has given the group confidence to increase its full-year production guidance for that operation to 2,550-2,650t (from 2,450-2,550t previously) at an unchanged cost forecast of \$22.7-23.5/kg. Accordingly, group consolidated production guidance for the year is now 3,900-4,100t (down from 4,200-4,400t previously), though Bushveld still expects its previously targeted year-exit production run rate of 5,000-5,400t pa to be achieved (and we note that the performance of Vanchem's Kiln 3 has improved through H2 to date, output increasing from 61t in July to 151t in August).
- ▶ **Full-year estimate revisions:** If the improving operational performance of Vanchem is maintained across H2, we think EBITDA profitability should be maintained through to the end of the year, despite currently softer market V pricing. Nonetheless, the slower-than-previously anticipated ramp-up of Kiln 3 and the resulting tempering of guidance for Vanchem has prompted us to revise down our full year estimates – we now forecast full-year EBITDA of \$20m, down from \$34m previously. We still expect that cash to hand together with internal cash generation in H2 will be sufficient to cover remaining capex requirements for the year (c.\$13-14m in H2) and repayment of the group's revolving credit facility (c.\$3m at end H1).
- ▶ **Growth optionality:** Bushveld retains optionality to increase its production capabilities from the 2022 year-exit target rate of 5,000-5,400t to an ultimate rate of c.8,000t pa through a phased expansion plan announced earlier this year (and detailed in our note of 4 July). Given the relatively high fixed component of operating costs, such an expansion could lower unit costs by over 20%, widening profit margins significantly. However, the group has made clear that this next stage of growth will only be pursued once its near-term operational targets are met and subject to the necessary funding being secured (the total estimated capex for the expansion is \$151m, but the phased nature of the plan lowers the initial capex exposure).
- ▶ **Valuation:** With hard-won operational stability attained at Vametco, bedding-in the recently commissioned Kiln 3 at Vanchem through H2 should see production stabilise at a higher level (and costs at a lower level) by the end of this year. Longer-term, executing the phased expansion plan would unlock more substantial margin growth. At US\$40/kg V, we estimate a phased expansion to 8,000t pa could see consolidated EBITDA grow to at least US\$100m pa (at margins of over 35%), around double our forecast annualised EBITDA at next year's production capacity of 5,000-5,400t (which we think would sustain a c.25% margin). An expansion would increase our NPV_{8%} estimate by over 50% – our 18p valuation includes just 0.5x of this incremental uplift, reflecting uncertainty over timing, funding and opex structure.

Summary forecasts

Figures 1-3 below and overleaf summarise our key operational and financial forecasts for the next two full years at our base-case scenario of 5,000-5,400t V pa functional production capability from end-2022. Were Bushveld to elect to commence its outlined growth plan during this period, our net and free cash flow estimates would be reduced accordingly in-line with the expenditure profile.

Our estimates assume that the US\$34m of outstanding convertible loan notes with Orion Mine Finance are converted at maturity in Q4 2023, as our company valuation exceeds the 17p note conversion price. Bushveld's shares are currently trading significantly below the conversion price – were the notes together with accrued interest to be redeemed (partially or in full), our forecast 2023 net cash flow and year-end cash balance would be reduced in kind accordingly.

Figure 1: Summary operational forecasts and macro assumptions

		2019	2020	2021	2022E	2023E
Vanadium production	t V	2,931	3,631	3,592	4,000	5,100
Sales volumes	t V	2,392	3,842	3,314	4,100	5,242
Average realised vanadium price (FeV basis)	US\$/kg V	49	23	32	40	40
C1 cash production costs	US\$/kg V	18.0	19.6	26.1	27.3	24.3
Group all-in sustaining cash costs*	US\$/kg V	37.0	29.0	37.0	36.7	31.9
South African Rand	ZAR:USD	14.4	16.5	14.8	15.5	15.5

*Including royalties, marketing costs, G&A, corporate overheads and sustaining capex (excludes depreciation and financing costs). Source: ARC estimates

Figure 2: Summary Bushveld Minerals consolidated income statement

Income Statement		2019	2020	2021	2022E	2023E
Revenue	US\$m	116.5	90.0	106.9	164.4	210.3
Cost of sales	US\$m	(56.2)	(91.3)	(102.8)	(129.8)	(145.0)
Other income	US\$m	0.9	2.3	2.6	2.4	2.6
Selling and distribution costs	US\$m	(7.6)	(4.8)	(6.4)	(7.6)	(9.1)
Administrative and other costs	US\$m	(31.4)	(29.0)	(29.6)	(26.5)	(23.5)
Operating profit/(loss)	US\$m	22.3	(32.8)	(29.3)	2.9	35.3
Net finance costs	US\$m	1.9	(4.7)	(11.2)	(6.9)	(7.3)
Exceptional non-cash items	US\$m	59.1	(0.2)	(1.9)	0.0	0.0
Share of profit/(loss) from JVs	US\$m	0.0	0.0	(4.4)	0.0	0.0
Profit/(loss) before tax	US\$m	83.3	(37.7)	(46.8)	(4.0)	28.0
Tax	US\$m	(14.0)	0.5	4.7	0.0	(13.5)
Net profit/(loss)	US\$m	69.2	(37.2)	(42.1)	(4.0)	14.4
Cash Flow Statement		2019	2020	2021	2022E	2023E
Operational CF before WC changes	US\$m	23.9	(18.4)	(7.1)	23.2	39.7
Working capital changes	US\$m	4.6	1.3	(5.0)	1.8	(21.1)
Cash flow from operations	US\$m	28.5	(17.1)	(12.1)	25.0	18.6
Capex and investments	US\$m	(17.7)	(11.2)	(29.4)	(22.1)	(5.8)
Other	US\$m	(32.0)	(2.2)	12.3	(0.3)	0.1
Cash flow from investing activities	US\$m	(49.7)	(13.3)	(17.2)	(22.4)	(5.7)
Net borrowings	US\$m	18.6	49.4	(4.7)	(7.5)	(1.0)
Finance costs and other	US\$m	(5.3)	(2.0)	(2.3)	(3.6)	(4.6)
Cash flow from financing activities	US\$m	13.3	47.4	(7.0)	(11.1)	(5.6)
Increase/(decrease) in cash	US\$m	(8.0)	17.0	(36.3)	(8.4)	7.3

Balance Sheet		2019	2020	2021	2022E	2023E
Cash	US\$m	34.0	50.5	15.4	7.0	14.3
P,P&E	US\$m	185.3	167.6	153.1	149.8	139.7
Intangible assets	US\$m	59.4	59.0	59.3	59.3	59.3
Other assets	US\$m	56.1	78.8	72.9	72.4	92.0
Total assets	US\$m	334.8	355.9	300.7	288.4	305.2
Payables	US\$m	15.7	22.1	39.1	32.3	30.8
Debt	US\$m	41.8	85.8	77.6	68.1	31.5
Other liabilities	US\$m	36.2	34.0	33.1	32.6	32.6
Total liabilities	US\$m	93.7	141.9	149.9	133.0	94.9
Total equity	US\$m	241.1	214.0	150.8	155.5	210.3
Total liabilities & equity	US\$m	334.8	355.9	300.7	288.4	305.2

Source: ARC estimates

Figure 3: Key financial measurements and ratios

		2019	2020	2021	2022E	2023E
Shares in issue	m	1,153.0	1,192.2	1,259.8	1,287.1	1,497.7
EBITDA	US\$m	32.6	(14.9)	(9.9)	20.2	51.2
EBITDA margin	%	28%	na	na	12%	24%
EPS	US\$/sh	0.05	(0.03)	(0.03)	(0.00)	0.01
Net profit margin	%	53%	na	na	na	4%
Free cash flow	US\$m	(21.3)	(30.5)	(29.2)	2.6	12.9
Net debt/(cash)	US\$m	7.7	33.7	62.2	61.1	17.2
EV/EBITDA	x	3.1	na	na	5.0	2.0
FCF yield	%	na	na	na	3.5%	17.4%

Source: ARC estimates

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