

27 April 2023

BMN LN Mining & Metals

Market data

Price (p)	4.1
Valuation (p)	12.0
12m High (p)	10.7
12m Low (p)	3.8
Shares (m)	1,287
Mkt Cap (£m)	52.8

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	150.5	185.1
EBITDA (\$m)	(9.9)	18.1	35.2
EPS (\$/sh)	(0.03)	(0.00)	0.00
FCF (\$m)	(29.2)	4.2	6.3
EV/EBITDA (x)	na	6.8	3.5
P/E (x)	na	na	na
FCF yield (%)	na	6.4	9.8
Net debt (\$m)	62.2	58.8	20.9

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Bushveld Minerals*

Full-year targets remain within reach after mixed Q1

Weather-related disruptions and a decision to undertake maintenance whilst drawing down on inventories resulted in a Q-on-Q reduction in output in Q1 2023, though costs remained under control and sales rose on the inventory draws. With more reliable power supply now being realised at Vanchem and a new third-party source of low-silica ore feed expected to improve recoveries there going forward, Bushveld anticipates rising group production rates as 2023 progresses and thus remains confident of achieving its unchanged production and cost targets. If achieved, this should drive further earnings growth this year. However, restructuring US\$35m of group convertible debt due in Q4 will be key to unlocking an upwards price re-rating, in our view.

- ▶ **Q1 production results:** Q1 2023 group vanadium production of 943t was broadly in-line with the comparable quarter of last year but down 20% on the preceding Q4 2022 period as weather and maintenance-related disruptions at Vametco and a decision to implement a two-week maintenance shutdown at Vanchem offset improving operational stability at the latter. Vametco contributed 682t, down 16% vs Q4 2022 as operations were adversely impacted by 10 days of unusually high rainfall and a one-week maintenance shutdown to replace the plant's secondary crusher. The plant's roasting kiln continued to perform well, and Bushveld has decided to push out a previously planned 30-day maintenance shutdown from Q2 to Q3 2023 accordingly. Vanchem contributed 261t, down 30% vs Q4 2022 reflecting Bushveld's decision to implement a two-week maintenance shutdown whilst drawing down on inventories accumulated in 2022 to maintain sales levels. The plant's main 25-day annual maintenance shutdown is now planned for Q3 2023. The two-week maintenance break masked what was otherwise an improving operational performance at Vanchem as the quarter progressed, aided by better availability of the newly refurbished Kiln 3 and more consistent power supply. An impressive 141t was produced in March alone, and some 117t has been produced month-to-date in April. Bushveld has negotiated a new third-party ore supply agreement for Vanchem for material that has lower silica levels compared with the alternative Upper Seam ore feed from Vametco. The company anticipates that this will see higher process recoveries going forward, yielding more stable production rates at no additional cost.
- ▶ **Sales volumes up, costs under control:** The ability to drawdown on inventories at Vanchem helped push up group sales volumes in Q1 by 14% compared with the preceding quarter (and 20% over the corresponding quarter of last year). At US\$25.9/kg, group weighted average cash production costs were only marginally (+3%) higher vs Q4 2022, a weaker South African Rand largely offsetting the temporarily lower production rates. This compares with average market vanadium prices (FeV basis) of US\$38-43/kg across the key markets that Bushveld sells into.
- ▶ **2023 guidance maintained:** Annualised, the Q1 production rate would put Bushveld on course for just under 3,800t of output for the full year. However, the group has previously stated that it expects volumes to be weighted to the second half, and it remains confident in achieving its unchanged full-year target of 4,200-4,500t, particularly given the improved reliability of power supply at Vanchem year-to-date. Weighted average group production cash cost guidance for the year is likewise unchanged at US\$26-27/kg.
- ▶ **Electrolyte plant progressing:** Construction and cold commissioning of the BELCO electrolyte manufacturing plant (55% Bushveld Energy, 45% South Africa's Industrial Development Corporation) in East London was completed in Q1, and hot commissioning is underway. The facility has a targeted annual capacity of 8m litres of vanadium electrolyte for use in vanadium redox-flow battery units – off-take discussions are advancing with various potential customers.
- ▶ **Estimates and valuation unchanged:** With annual production and cost guidance maintained, our 2023 estimates (which assume around the mid-point of Bushveld's guidance range) are similarly unchanged. We continue to expect year-on-year earnings growth in 2023, though we will closely monitor the progress of Vametco and Vanchem and movements in the vanadium market as the year progresses (our estimates assume a flat US\$40/kg FeV price, broadly in line with the year-to-date market average). Given the relatively high fixed component of its cost base, Bushveld's ambition to expand production in stages to 5,000-5,400t pa over the medium term and to c.8,000t pa over the longer term (initiatives it will only sanction once near-term targets are achieved and funding secured) would widen margins further. An expansion would increase our NPV estimate by c.60% – our 12p/sh valuation (diluted for assumed refinancing of US\$35m of group convertible debt due in November) includes just 0.5x of this incremental uplift, reflecting uncertainty over timing, funding and opex structure. As with our estimates, our 12p risk-weighted and dilution-adjusted valuation is highly levered to vanadium price, but also to the eventual structure of any refinancing of Bushveld's maturing convertible debt.

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