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BMN LN Mining & Metals

Source: Bloomberg

Market data

Price (p)	4.7
Valuation (p)	18.0
12m High (p)	14.1
12m Low (p)	4.1
Shares (m)	1,287
Mkt Cap (£m)	60.0

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

	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	4.9	1.9
P/E (x)	na	na	10.3
FCF yield (%)	na	3.6	17.6
Net debt (\$m)	62.2	61.1	17.2

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Bushveld Minerals*

Big gains in production rates as Vanchem gathers pace

An acceleration in the ramp-up of Kiln 3 at Vanchem and a continued strong performance at Vametco saw Bushveld's consolidated vanadium production rates increase in Q3 and group weighted average costs come down relative to Q2. As such, we think Bushveld remains on course to meet its 2022 full-year production and cost targets. Unprecedented levels of power load-shedding in South Africa and global inflationary pressures do continue to pose threats to both targets however, while vanadium is currently trading at below year-to-date average levels. Further adverse movements in these key variables in Q4 could impact our full-year estimates, and we will thus closely monitor the situation as the quarter progresses. 2023 should see material improvement in profitability with the group set to begin the year at a steady-state production rate of 5,000-5,400t pa following the completion of the Vanchem Kiln 3 ramp-up this quarter. Delivering on its recently detailed plan to further expand group production in stages to an ultimate rate of c.8,000t pa would see Bushveld's margins widened further over the longer term.

- ▶ **Vanchem Kiln 3 drives production gains:** Group vanadium output increased some 52% Q-on-Q, to 1,016t, as a continuing robust operational performance at Vametco (+40%) was supplemented with much higher production at Vanchem (+83%) as the Kiln 3 ramp-up gathered pace after slower-than-expected progress in Q2. The Q3 result takes production for the nine months to end September to 2,657t, marginally ahead of the year-ago period. If Vanchem Kiln 3 continues to progress as expected through Q4 – and we note Bushveld still anticipates reaching an annualised steady-state *group* production rate of 5,000-5,400t pa by year-end – we think full-year guidance of 3,900-4,100t remains achievable. However, we caution that South Africa has been experiencing unprecedented levels of power load-shedding, a worsening of which could hinder Bushveld's ability to meet targets, particularly at Vanchem (though we note Vanchem has diesel generator back up, and that Bushveld is exploring other measures to further mitigate against inevitable future load-shedding).
- ▶ **Costs trending down:** Weighted average group production cash costs were US\$29/kg in Q3, down 6% on the preceding quarter owing to the substantial improvement in production rates at Vanchem (where costs fell 30% Q-on-Q), which more than offset the impact of inflationary pressures, particularly at Vametco (where cash costs were up 10% Q-on-Q). Year-to-date cash costs at each operation are running slightly ahead of full-year guidance of US\$23-24/kg at Vametco and US\$35-36/kg at Vanchem respectively, though we think these targets remain in sight if production rates continue to increase through Q4 as planned. However, we note that elevated inflation levels globally could continue to pressurise costs, though the impact on reported US dollar costs should be somewhat offset by a weaker South African rand.
- ▶ **Regional divergence in V pricing:** Global vanadium prices fell in Q3, averaging US\$34/kg V (FeV basis) in Europe and just US\$30/kg in Asia, down from US\$44/kg and US\$34/kg respectively in Q2. This took average pricing in the nine months to end September to US\$41/kg (Europe) and US\$35/kg (Asia). Pricing in the US – to which a significant portion of Bushveld's sales go – are reportedly trading at a premium to the rest of the world. The company states that demand for its products generally "remains strong". Moreover, we note that Bushveld's diverse mix of vanadium products enables it to penetrate those markets where demand is strongest (a real strategic advantage in times when traditional steel end-use markets are more muted).
- ▶ **Valuation and estimates:** Our unchanged 2022 full-year earnings estimates assume production and costs within Bushveld's guidance range, and a realised vanadium price of US\$40/kg. The latter is broadly in-line with year-to-date market averages, though above current spot. We feel market pricing is at a low point and see upside potential should co-production supply recede with lower seaborne iron-ore pricing, as it has in the past. We also note that Bushveld sells much of its product into the US, where vanadium is currently priced at a premium relative to other parts of the world. Nevertheless, we will review our full-year estimates should Q4 pricing remain weak and/or if ongoing power load-shedding in South Africa causes any change to Bushveld's production outlook. We continue to forecast a more marked growth in earnings next year as production settles at a sustainable rate of 5,000-5,400t pa. Given the relatively high fixed component of operating costs, Bushveld's longer-term ambition to expand output rates in stages to an ultimate c.8,000t pa – an initiative it will only sanction once near-term targets are achieved and funding is secured – would widen margins further, and by our estimates could see consolidated EBITDA grow to c.US\$100m pa (around double our forecast annualised EBITDA at the 2022 year-exit target production rate). 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.

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