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BMN LN Mining & Metals


Source: Bloomberg

Market data

Price (p)	4.6
Valuation (p)	12.0
12m High (p)	14.1
12m Low (p)	4.1
Shares (m)	1,287
Mkt Cap (£m)	58.6

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	7.2	3.8
P/E (x)	na	na	na
FCF yield (%)	na	5.8	8.8
Net debt (\$m)	62.2	58.8	20.9

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Bushveld Minerals*

Record production achieved in trying circumstances

Higher production at Vanchem coupled with another stable year at Vametco saw Bushveld deliver record annual vanadium production in 2022, though the adverse impact of electricity load shedding on the ramp up of Vanchem meant that the full-year total narrowly missed the group's target. We still anticipate a return to positive EBITDA for 2022 and further earnings growth this year as Vanchem continues to gather pace. However, evidence of positive progress on load-shedding mitigation measures at Vanchem and on restructuring US\$35m of group convertible debt due in November will be key to unlocking a near-term share price re-rating, in our view.

- ▶ **Production gains continue, though load-shedding constrains Vanchem:** Group vanadium output ticked up again in Q4, increasing some 17% Q-on-Q, to 1,184t, as a stable operational performance at Vametco was supplemented with higher production at Vanchem, where Kiln 3 continued to ramp up. However, the latter's progress was hindered by further incidences of electricity load shedding, symptomatic of a wider electricity crisis in South Africa. Bushveld estimates this negatively impacted Vanchem's output by c.200t during H2, and as a result group annual production of 3,842t was marginally below both the lower end of guidance and our estimate. However, the total was still some 7% higher than the prior year and marks a new annual record for Bushveld – a not insignificant achievement given the challenges faced.
- ▶ **Costs benefit from higher volumes:** As expected given the high fixed component of costs, the higher production volumes had a beneficial impact on unit production costs, despite the power interruptions. Weighted average cash costs in Q4 were US\$25/kg, down 13% on the preceding quarter, taking costs for the full year to US\$28/kg (down 6% versus 2021). Dollar-quoted costs also benefitted from a weakening of the South African Rand over the period (down 4% vs USD).
- ▶ **2023 guidance:** While Bushveld maintains its near-term target of achieving a steady-state group production run rate of 5,000-5,400t pa, electricity load shedding has impacted its ability to optimise Vanchem, and this has been factored into its 2023 group production guidance of 4,200-4,500t (with volumes weighted to H2). Encouragingly, a solution aimed at reducing the future impact of scheduled load shedding has been agreed between Vanchem and the local municipality. However, the group warns that, in the event of unscheduled instances of load shedding, Vanchem would remain exposed to total power loss. Weighted average group production cash cost guidance for the year is set at US\$26-27/kg, inflation of certain cost drivers (including a 19% hike in electricity prices in South Africa from April 1st) partly offsetting the beneficial impact of the forecast higher volumes and weaker currency.
- ▶ **Convertible note refinancing talks underway:** Bushveld has US\$35m of convertible notes out with Orion Mine Finance that were issued in late 2020 as part of the group's US\$65m production growth financing with the latter. The notes mature in November 2023, and as the 17p conversion price is significantly above Bushveld's current share price the company has begun discussions with Orion and other potential "specialist funders" regarding refinancing options. An update on the progress of these discussions will be provided in due course, with the group confident of a positive outcome that will deliver a "sustainable capital structure".
- ▶ **Estimates and valuation:** We have updated our 2022 estimates for the final production result, which was a little below our forecast, and for reported sales volumes, which slightly lagged production (a feature we expect to reverse in 2023). We have also revised down our 2023 production assumption to bring it in line with guidance (which owing to the ongoing impact of load shedding at Vanchem, is lower than our prior expectation) and increased our cost forecasts a little accordingly. We still anticipate a return to positive EBITDA for 2022, albeit at a slightly lower level of US\$18m (vs our prior estimate of US\$20m). We think EBITDA should grow materially in 2023 given expected further production gains, though we caution that our estimates are very leveraged to V price (our 2023 price assumption of US\$40/kg FeV is around last year's average). Given the relatively high fixed component of costs, Bushveld's ambition to expand production in stages from the 5,000-5,400t pa near-term target to an ultimate c.8,000t pa – an initiative it will only sanction once near-term targets are achieved and funding secured – would widen margins further, and by our estimates could see consolidated EBITDA grow towards US\$100m pa over the longer term (at US\$40/kg V). An expansion would increase our NPV_{8%} estimate by c.60% – our 12p/sh diluted valuation includes just 0.5x of this incremental uplift, reflecting uncertainty over timing, funding and opex structure. Moreover, our valuation includes just US\$25m (1p/sh) of nominal value for Bushveld's vanadium electrolyte manufacturing facility BELCO, construction of which is nearing completion with operations due to start in H1 2023. This will open another revenue stream from the growing redox-flow battery sector, providing possible upside to our earnings estimates and valuation.

Summary forecasts

Figures 1-3 below and overleaf summarise our key operational and financial forecasts for 2022 and 2023, incorporating the reported operational results for the former year and Bushveld’s latest production and cost guidance for the latter.

Bushveld’s shares are currently trading significantly below the 17p conversion price of the US\$35m of outstanding convertible loan notes that mature in Q4 2023. The group is in discussions to restructure this debt, and while we note its confidence that negotiations will conclude with a “sustainable capital structure” being attained, there is no visibility on what form the restructuring will take at this point. In our financial modelling we have therefore simply assumed the debt is converted to equity in its entirety, at around the company’s current share price. This increases our forecast 2023 year-end shares out figure and dilutes our estimated per-share values accordingly. We caution that our 2023 cash-flow, balance-sheet and per-share estimates could change materially depending on how the restructuring plays out.

Figure 1: Summary operational forecasts and macro assumptions

		2019	2020	2021	2022E	2023E
Vanadium production	t V	2,931	3,631	3,592	3,842	4,350
Sales volumes	t V	2,392	3,842	3,314	3,584	4,600
Average realised vanadium price (FeV basis)	US\$/kg V	49	23	32	42	40
C1 cash production costs	US\$/kg V	18.0	19.6	26.1	27.7	26.6
Group all-in sustaining cash costs*	US\$/kg V	37.0	29.0	37.0	37.0	35.0
South African Rand	ZAR:USD	14.4	16.5	14.8	16.4	17.0

*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 financial statements

Income Statement		2019	2020	2021	2022E	2023E
Revenue	US\$m	116.5	90.0	106.9	150.5	185.1
Cost of sales	US\$m	(56.2)	(91.3)	(102.8)	(119.1)	(137.2)
Other income	US\$m	0.9	2.3	2.6	2.3	2.6
Selling and distribution costs	US\$m	(7.6)	(4.8)	(6.4)	(7.0)	(8.2)
Administrative and other costs	US\$m	(31.4)	(29.0)	(29.6)	(25.8)	(25.1)
Operating profit/(loss)	US\$m	22.3	(32.8)	(29.3)	0.9	17.2
Net finance costs	US\$m	1.9	(4.7)	(11.2)	(6.5)	(6.6)
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)	(5.6)	10.6
Tax	US\$m	(14.0)	0.5	4.7	0.0	(4.2)
Net profit/(loss)	US\$m	69.2	(37.2)	(42.1)	(5.6)	6.3
Cash Flow Statement		2019	2020	2021	2022E	2023E
Operational CF before WC changes	US\$m	23.9	(18.4)	(7.1)	20.6	33.5
Working capital changes	US\$m	4.6	1.3	(5.0)	5.3	(17.7)
Cash flow from operations	US\$m	28.5	(17.1)	(12.1)	25.9	15.8
Capex and investments	US\$m	(17.7)	(11.2)	(29.4)	(21.4)	(9.6)
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)	(21.7)	(9.5)
Net borrowings	US\$m	18.6	49.4	(4.7)	(7.1)	(1.0)
Finance costs and other	US\$m	(5.3)	(2.0)	(2.3)	(3.3)	(3.9)
Cash flow from financing activities	US\$m	13.3	47.4	(7.0)	(10.4)	(4.9)
Increase/(decrease) in cash	US\$m	(8.0)	17.0	(36.3)	(6.2)	1.4

Balance Sheet		2019	2020	2021	2022E	2023E
Cash	US\$m	34.0	50.5	15.4	9.2	10.7
P,P&E	US\$m	185.3	167.6	153.1	149.3	138.5
Intangible assets	US\$m	59.4	59.0	59.3	59.3	59.3
Other assets	US\$m	56.1	78.8	72.9	81.7	93.8
Total assets	US\$m	334.8	355.9	300.7	299.4	302.2
Payables	US\$m	15.7	22.1	39.1	45.1	37.2
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	145.7	101.3
Total equity	US\$m	241.1	214.0	150.8	153.7	201.0
Total liabilities & equity	US\$m	334.8	355.9	300.7	299.4	302.2

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	1,998.5
EBITDA	US\$m	32.6	(14.9)	(9.9)	18.1	35.2
EBITDA margin	%	28%	na	na	12%	19%
EPS	US\$/sh	0.05	(0.03)	(0.03)	(0.00)	(0.00)
Net profit margin	%	53%	na	na	na	na
Free cash flow	US\$m	(21.3)	(30.5)	(29.2)	4.2	6.3
Net debt/(cash)*	US\$m	7.7	33.7	62.2	58.8	20.9
EV/EBITDA	x	4.0	na	na	7.2	3.8
FCF yield	%	na	na	na	5.8	8.8

*Includes Orion production finance agreement balance and convertible loan notes

Source: ARC estimates

Valuation

As per the caveat above, our sum-of-the-parts valuation in Figure 4 below is diluted based on our simple assumption that the US\$35m loan notes (plus accrued interest) are converted to equity at around Bushveld’s current share price. The ultimate form that the loan-note restructuring takes will clearly have implications for our resulting per-share values.

Figure 4: Risk-adjusted sum-of-the-parts valuation*

		Unrisked		Risk	Riskd
		US\$m	GBP/sh	multiple	GBP/sh
Base production case**	NPV _{8%}	274	11.2	0.9x	10.1
Growth case upside**	NPV _{8%}	170	6.9	0.5x	3.5
BELCO	nominal	25	1.0		1.0
Bushveld Energy and other	nominal	10	0.4		0.4
EV		479	19.5		14.9
Corporate overheads	NPV _{8%}	(82)	(3.4)		(3.4)
Cash	end-2022E	9	0.4		0.4
NAV		406	16.5	0.7x	12.0

*Assumes long-term US\$40/kg FeV price, R17:US\$1 FX rate and 1,992m diluted shares on issue

**NPV estimates incorporate cash outflows under the Orion Production Finance Agreement

Source: ARC estimates

Figure 5: Un-risked NAV_{8%} (GBP) sensitivity to vanadium price and FX rate

		Average realized vanadium price (US\$/kg V, FeV basis)						
		32.50	35.00	37.50	40.00*	42.50	45.00	47.50
USD/ZAR rate	16.00	0.3	4.8	9.2	13.5	17.7	22.0	26.5
	16.50	2.0	6.4	10.8	15.1	19.3	23.6	28.0
	17.00*	3.6	8.0	12.3	16.5	20.8	25.1	29.5
	17.50	5.1	9.4	13.7	18.0	22.2	26.5	30.9
	18.00	6.5	10.8	15.1	19.3	23.6	27.8	32.2

*Valuation base-case assumptions

Source: ARC estimates

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