

15 August 2023

BMN LN Mining & Metals

Source: Bloomberg

Market data

Price (p)	2.4
Valuation (p)	8.5
12m High (p)	6.1
12m Low (p)	2.1
Shares (m)	1,558
Mkt Cap (£m)	37.4

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	2022	2023e
Sales (\$m)	106.9	148.4	147.7
EBITDA (\$m)	(9.9)	22.3	12.5
EPS (\$/sh)	(0.03)	(0.03)	(0.01)
FCF (\$m)	(29.2)	1.6	0.3
EV/EBITDA (x)	na	5.3	10.6
P/E (x)	na	na	na
FCF yield (%)	na	4.1	0.8
Net debt (\$m)	66.7	79.5	83.8

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Bushveld Minerals*

Resetting the dial

Unexpected operational challenges at Vametco in Q2 and delays in receiving better-quality third-party sourced ore feed at Vanchem prompted Bushveld to revise down its full-year group vanadium production guidance by 7-18%. Though the Q2 shortfall was disappointing, the guidance reset is prudent and timely. Under the stewardship of new CEO Craig Coltman, Bushveld is sensibly refocusing on operational progress at its two core assets, including implementing practical 'turnaround' initiatives at Vanchem aimed at getting the latter to a position from which it can sustainably generate positive cash flow. Delivering on these near-term objectives and alleviating balance-sheet pressure through conclusion of the previously detailed convertible loan note refinancing should help rebuild market confidence and provide a platform from which to pursue more material growth from a unique asset base offering leverage to a vanadium recovery.

- ▶ **Production rates slip back in Q2:** Bushveld's consolidated vanadium production in the three months to 30 June 2023 fell by 11% Q-on-Q, to 840t, as operational interruptions at Vametco offset improved production rates at Vanchem. Vametco's output fell by 29% from Q1's levels, to 485t, owing to challenges associated with the operation's sulphate recovery plant and barren dam level constraints (which negatively impacted Vametco's quarterly run-rate by c.200t). At Vanchem, quarterly production increased by 36%, to 355t, as higher rates from the refurbished Kiln 3 offset further unplanned stoppages and power disruptions. However, the latter issues, together with a delay in the transition to using better-quality, third-party sourced ore, meant that Vanchem's Q2 performance, though improved, was below expectations.
- ▶ **Costs contained, sales up:** Despite the fall in production, weighted average C1 cash costs were relatively stable at \$27.4/kg (up just 5% vs Q1), the volume-driven reduction in unit costs at Vanchem (down 20% Q-on-Q to \$27.2/kg) partially offsetting a material increase in unit costs at Vametco (up 21% to \$27.5/kg) arising from the latter's operational interruptions. US Dollar-denominated costs also benefitted from a weaker South African Rand (the currency in which most of Bushveld's costs are borne). Encouragingly, Bushveld reports that previously detailed logistical challenges across the sales/distribution chain have abated, and that demand for its range of vanadium products remains high. This enabled the group to start lowering its finished product stock levels, with Q2 sales volumes of 1,068t exceeding production and up 4% vs Q1.
- ▶ **Guidance reset:** Mainly due to the challenging Q2 at Vametco, but also to the slower-than-planned increase in production rates at Vanchem through H1 and the delay to switching to the use of better-quality feed ore (which has now commenced), Bushveld has revised down its 2023 guidance. The group now expects a consolidated total of 3,700-3,900t (2,300-2,400t from Vametco and 1,400-1,500t from Vanchem), down from 4,200-4,500t previously (c.2,700t Vametco and 1,500-1,800t Vanchem). Helped by a weaker-than-previously-anticipated Rand, C1 cash cost guidance in US Dollar terms remains largely unchanged at around US\$27/kg.
- ▶ **Estimates and investment outlook:** Applying Bushveld's revised production guidance and marking-to-market for the year-to-date vanadium price (10% lower than our previous estimate) reduces our 2023 EBITDA and free cash flow estimates by 64% and 75% respectively, to US\$12.5m and US\$1.5m, highlighting leverage to production volumes and vanadium price given the relatively high fixed component of Bushveld's cost base. On this basis – and assuming the restructuring of the November-maturing c.US\$45m of convertible loan notes (including accrued interest) on the terms previously outlined – we estimate a positive year-end cash balance. However, as warned in the going concern statement in Bushveld's recent 2022 annual results, we note the potential for liquidity tightness should vanadium prices fall below our expectations (we assume a 2023 average achieved price of US\$36/kg on an FeV basis, which is in-line with year-to-date averages but above current market levels of US\$32-35/kg) or if the CLN restructuring is not concluded on the terms and timeline outlined. Thereafter, assuming V recovers to around \$40/kg – a level which we think is well supported by the sector's fundamentals – we see potential for EBITDA margins to grow to more comfortable levels of 20-30% if Bushveld can reach and sustain production levels of 4,400-5,400t pa (which may not require further major refurbishment capex, but which would rely on adequate sustaining capex and reducing operational interruptions). Longer-term, we still see scope for more material margin expansion given Bushveld's previously outlined plan to grow production from its existing asset base to a c.8,000t pa rate. Our 8.5p/sh target includes only a modest allowance for the latter, suggesting significant valuation upside potential if such future growth can be delivered. However, we acknowledge the near-term investment outlook is somewhat binary and dependent on a successful outcome from the CLN refinancing underway. Concluding the latter and delivering consistently on more modest near-term production goals should help rebuild market confidence in Bushveld's loftier long-term growth ambitions.

Summary forecasts

Figures 1-3 summarise our updated operational and financial forecasts for 2023, incorporating Bushveld's revised production guidance and assuming the Orion CLN debt is restructured on the terms outlined earlier this year. Our 2024 estimates assume some production growth and a recovery in vanadium pricing from our 2023 assumption of an average achieved price of US\$36/kg (FeV basis) to US\$40/kg.

Figure 1: Summary operational forecasts and macro assumptions

		2020	2021	2022	2023E	2024E
Vanadium production	t V	3,631	3,592	3,842	3,800	4,400
Sales volumes	t V	3,842	3,314	3,584	4,100	4,492
Average realised vanadium price (FeV basis)	US\$/kg V	23	32	41	36	40
C1 cash production costs	US\$/kg V	20	26	28	27	26
South African Rand	ZAR:USD	16.5	14.8	16.4	17.5	17.5

Source: ARC estimates

Figure 2: Summary Bushveld Minerals consolidated financial statements

		2020	2021	2022	2023E	2024E
Income Statement						
Revenue	US\$m	90.0	106.9	148.4	147.7	180.1
Cost of sales	US\$m	(91.3)	(102.8)	(108.3)	(123.7)	(134.0)
Other income	US\$m	2.3	2.6	2.7	2.0	2.4
Selling and distribution costs	US\$m	(4.8)	(6.4)	(9.3)	(6.6)	(7.8)
Administrative and other costs	US\$m	(29.0)	(29.6)	(29.8)	(25.0)	(19.0)
Operating profit/(loss)	US\$m	(32.8)	(29.3)	3.8	(5.5)	21.8
Net finance costs	US\$m	(4.7)	(11.2)	(13.7)	(10.1)	(10.6)
Exceptional non-cash items	US\$m	(0.2)	(1.9)	(21.8)	0.0	0.0
Share of profit/(loss) from JVs	US\$m	0.0	(4.4)	(5.1)	0.0	0.0
Profit/(loss) before tax	US\$m	(37.7)	(46.8)	(36.8)	(15.6)	11.2
Tax	US\$m	0.5	4.7	1.3	0.0	(9.4)
Net profit/(loss)	US\$m	(37.2)	(42.1)	(35.4)	(15.6)	1.7
Cash Flow Statement						
Operational CF before WC changes	US\$m	(18.4)	(7.1)	15.0	15.0	26.9
Working capital changes	US\$m	1.3	(5.0)	6.2	(4.0)	4.1
Cash flow from operations	US\$m	(17.1)	(12.1)	21.2	11.0	30.9
Capex and investments	US\$m	(11.2)	(29.4)	(19.4)	(10.8)	(6.8)
Other	US\$m	(2.2)	12.3	(0.2)	0.2	0.1
Cash flow from investing activities	US\$m	(13.3)	(17.2)	(19.6)	(10.7)	(6.7)
Net borrowings	US\$m	49.4	(4.7)	(1.4)	(2.1)	(10.1)
Finance costs and other	US\$m	(2.0)	(2.3)	(3.9)	(5.0)	(6.8)
Cash flow from financing activities	US\$m	47.4	(7.0)	(5.3)	(7.2)	(16.9)
Increase/(decrease) in cash	US\$m	17.0	(36.3)	(3.8)	(6.9)	7.3
Balance Sheet						
Cash	US\$m	50.5	15.4	10.9	4.0	11.3
P,P&E	US\$m	167.6	153.1	127.4	117.9	110.1
Intangible assets	US\$m	59.0	59.3	53.5	53.5	53.5
Other assets	US\$m	78.8	72.9	75.8	70.8	61.4
Total assets	US\$m	355.9	300.7	267.6	246.1	236.3
Payables	US\$m	22.1	39.1	47.1	35.6	30.3
Debt	US\$m	90.8	82.1	90.4	87.8	77.7
Other liabilities	US\$m	29.0	28.6	24.5	22.9	22.9
Total liabilities	US\$m	141.9	149.9	162.0	146.3	131.0
Total equity	US\$m	214.0	150.8	105.6	99.7	105.3
Total liabilities & equity	US\$m	355.9	300.7	267.6	246.1	236.3

Source: ARC estimates

Figure 3: Key financial measurements and ratios

		2020	2021	2022	2023E	2024E
Shares in issue	m	1,192.2	1,259.8	1,287.1	1,616.6	1,616.6
EBITDA	US\$m	(14.9)	(9.9)	22.3	12.5	36.3
EBITDA margin	%	na	na	15%	8%	20%
EPS	US\$/sh	(0.03)	(0.03)	(0.03)	(0.01)	(0.00)
Net profit margin	%	na	na	na	na	na
Free cash flow	US\$m	(30.5)	(29.2)	1.6	0.3	24.2
Net debt/(cash)*	US\$m	33.7	66.7	79.5	83.8	66.4
EV/EBITDA	x	na	na	5.3	10.6	3.2
FCF yield	%	na	na	4.1%	0.8%	61.8%

*Includes Orion production finance agreement balance, term loan and convertible loan notes

Source: ARC estimates

Valuation

Our valuation incorporates a risked (0.9x) NPV_{10%} estimate of Vametco and Vanchem at our base-case assumptions (production rates rising gradually from current levels to installed full capacity of c.5,400t pa over the next few years), and an even more heavily risked (0.5x) NPV_{10%} of our estimate of the incremental additional cash flow potential of expanding output to around 8,000t pa over the longer term.

Our net debt figure includes the terms of the proposed refinancing of the Orion CLN but excludes the PFA as the cash-flow impacts of the latter are captured in our asset NPV calculations.

Our resultant risked sum-of-the-parts valuation of 8.5p per share includes in our share denominator an allowance for the issue of just under 60m shares to Orion under the terms of the proposed CLN refinancing – any downwards renegotiation of the convertible component of the proposed refinancing (currently set at 6p) would dilute our resultant per-share valuation.

Note that since our last valuation update, Bushveld’s shares on issue have increased by 270.4m following the issue of said number of shares (equating to 17% of Bushveld’s enlarged share capital) to convertible loan note holders of Mustang Energy plc pursuant to a backstop arrangement under an April 2021 investment agreement between the two.

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

		Unrisked		Risk	Riskd
		US\$m	GBP/sh	multiple	GBP/sh
Vametco-Vanchem base**	NPV _{10%}	240	11.7	0.9x	10.5
Expansion upside**	NPV _{10%}	121	5.9	0.5x	2.9
BELCO & Bushveld Energy	nominal	25	1.2		1.2
EV		386	18.8		14.7
G&A and debt service costs	NPV _{10%}	(90)	(4.4)		(4.4)
Net debt (excluding PFA)	estimate***	(38)	(1.8)		(1.8)
NAV		258	12.6	0.7x	8.5

*Assumes long-term US\$40/kg FeV price, R17.5:US\$1 FX rate and 1,616m diluted shares on issue (the latter assuming c.60m shares are issued under the c.US\$4.5m conversion of the Orion CLN at 6p/sh)

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

***Debt structure as proposed under loan note refinancing, less 2022 year-end cash

Source: ARC estimates

Figure 5 below illustrates the sensitivity of our *un-risked* NAV per share to vanadium price and USD/ZAR exchange rate assumptions, the two key external variables.

Figure 5: Un-risked NAV_{10%} (GBP) sensitivity to vanadium price and ZAR 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	15.50	(6)	(2)	2	6	10	15	19
	16.50	(3)	1	6	9	14	18	22
	17.50*	0	4	8	13	16	21	25
	18.50	3	7	11	15	19	23	27
	19.50	5	9	13	17	21	25	29

*Base-case assumptions

Source: ARC estimates

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