

26 September 2023

BMN LN Mining & Metals**Market data**

Price (p)	1.7
Valuation (p)	Under Review
12m High (p)	5.9
12m Low (p)	1.6
Shares (m)	1,558
Mkt Cap (£m)	26.9

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	12.1
EPS (\$/sh)	(0.03)	(0.03)	UR*
FCF (\$m)	(29.2)	1.6	UR*
EV/EBITDA (x)	na	4.8	8.3
P/E (x)	na	na	na
FCF yield (%)	na	4.7	UR*
Net debt (\$m)	66.7	79.5	50.9

*Under review pending final terms and conclusion of proposed transactions with SPR and refinancing of outstanding CLN with Orion.

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Bushveld Minerals*

Interim results

Bushveld delivered as robust a financial performance as could reasonably be expected in H1 2023 given the operational challenges faced. We are encouraged by the reported progress made at both Vametco and Vanchem since, and vanadium price aside (current prices are soft, and pose a downside risk if they do not recover in-line with our assumptions) we think Bushveld is broadly on course to meet our full-year estimates. But given its stressed balance sheet, concluding the refinancing of its c.US\$45m of outstanding CLN obligations by year end and closing the initial c.US\$7.5m elements of the series of proposed transactions with SPR are clearly the key near-term catalysts to rebuilding market confidence.

- ▶ **Interim results:** As detailed last month, despite continuing operational challenges at both Vametco and Vanchem, Bushveld managed to increase production and sales in H1 2023 relative to the corresponding period of last year. However, a lower average received vanadium price (US\$37.4/kg on an FeV basis, down from US\$46.4/kg in H1 2022) meant that group revenue rose by just 3%, to US\$78.4m. The positive impact of the increased sales volumes and favourable currency movements on unit costs offset the negative impact of inflationary pressure on key consumables and energy inputs, as group all-in sustaining costs (in US Dollar terms) fell by 12%, to US\$33.4/kg. However, higher maintenance and idle plant costs due to the previously flagged issues at both operations, together with an increase in selling and distribution costs, meant that adjusted EBITDA fell by 34%, to US\$10.3m. The group's bottom-line net loss widened to US\$12.5m, from US\$0.3m in H1 2022.
- ▶ **Full-year guidance maintained:** Following the implementation of practical 'turnaround' initiatives, the operational performance at both Vametco and Vanchem has improved through H2 to date. Some 215t V was produced at the former in August, and though output is expected to dip to c.180t this month owing to issues with the plant's leach circuit (now being addressed), Bushveld expects Vametco to return to a monthly run-rate of c.200t from October. If achieved, this would see Vametco meet Bushveld's recently revised full-year production target of 2,300-2,400t. Vanchem has also seen improvement thus far in H2, producing 160t in July and 175t in August 2023, the latter the highest monthly total since Bushveld took ownership of the assets in 2019. The production average of the first two months of H2 is some 63% higher than the H1 average monthly rate, and despite a planned eight-day maintenance shutdown this month (which will see monthly output briefly dip to 130t), if maintained this improved performance should see Vanchem comfortably meet Bushveld's full-year target of 1,400-1,500t. With group consolidated production guidance thus maintained at 3,700-3,900t, full-year C1 cash cost guidance also remains unchanged at c.US\$27/kg.
- ▶ **Recapitalisation targeted by year-end:** Despite halving capex vs the year-ago period, to US\$4.3m, the weaker V price and additional cost pressures described above resulted in negative free cash flow of US\$2.7m in H1 (vs a positive US\$7.1m in H2 2022), leaving Bushveld with cash of just US\$3.7m at period-end. Given the further weakening of V prices in H2 to date (currently just below US\$30/kg on an FeV basis), the importance of Bushveld concluding the previously announced refinancing of its c.US\$45m (including accrued interest) of outstanding convertible loan notes (CLN) with Orion Mine Finance and proposed equity transactions with Southern Point Resources (SPR) cannot be overstated. The latter could see a cumulative investment of US\$69.5-77.5m, including a US\$37.5m injection of cash in the near-term through the sale to SPR of a 50% stake in Vanchem and all of Bushveld's interest in the greenfield Mokopane project (US\$25m) and a direct equity investment in Bushveld (US\$12.5m). The equity investment will be undertaken at the same price as which Orion agrees to convert a c.US\$4.5m portion of the total CLN obligations – this was provisionally set at 6p under the non-binding terms of the wider CLN refinancing package detailed in May, but given the significant deterioration in Bushveld's share price since then we would imagine this will be renegotiated down. The pricing of both the CLN conversion and SPR's equity injection thus remains a material uncertainty on per-share dilution projections. Bushveld is confident the CLN refinancing will complete by year-end, and we would anticipate the initial transactions of the proposed SPR investment concluding on a similar timetable. SPR has already advanced a R150m (c.US\$8m) working capital facility to Bushveld (secured against Vanchem's production), which will be offset against the amounts payable by SPR under the proposed transactions.
- ▶ **Outlook:** The H1 results and subsequent operational progress are broadly tracking our full-year estimates. However, V prices have dipped below our full-year assumptions in H2 to date, and should they fail to recover across Q4 as we anticipate, this would have downside implications for our estimates. The prevailing weak V price environment highlights the importance of Bushveld concluding the recapitalisation initiatives described above in a timely manner. The sale of 50% of Vanchem at a price below our risked-NPV estimate of the stake will obviously dilute our prior Bushveld valuation, but we think this is outweighed by the positives benefits of much reduced near-term financial risk and the introduction of a strategic partner (who offers the potential for lower-cost feedstock for Vanchem in the medium-term and funding support for an expansion of Vanchem over the longer-term). Given uncertainty over pricing of both the c.US\$4.5m conversion portion of the proposed c.US\$45m CLN refinancing and the US\$12.5m direct equity investment by SPR, our per-share estimates and valuation are under review pending completion of those transactions. However, we are confident that substantial upside remains to Bushveld's current share price.

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