

6 November 2023

BMN LN Mining & Metals**Market data**

Price (p)	1.5
Valuation (p)	Under Review
12m High (p)	5.9
12m Low (p)	1.1
Shares (m)	1,558
Mkt Cap (£m)	22.6

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	2022	2023e
Sales (\$m)	106.9	148.4	137.0
EBITDA (\$m)	(9.9)	22.3	4.6
EPS (\$/sh)	(0.03)	(0.03)	UR*
FCF (\$m)	(29.2)	1.6	UR*
EV/EBITDA (x)	na	4.8	24.1
P/E (x)	na	na	na
FCF yield (%)	na	4.8	UR*
Net debt (\$m)	66.7	79.5	57.8

*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*

Operational progress continues – full-year targets in sight

The solid Q3 results are testament to Bushveld's continuing progress in maintaining stability at Vametco and turning around Vanchem to a position whereby it can sustainably maintain margins at normalised vanadium pricing levels. Full-year guidance looks very much achievable. Given prevailing soft market V pricing, it is encouraging to see costs being well controlled and to hear that the c.US\$8m interim working capital funds under the proposed transactions with Southern Point Resources (SPR) have been received. Concluding its convertible debt refinancing with Orion Mine Finance on terms that minimise dilution and completing the transactions with SPR thereafter remain key to the equity story in the immediate term, with potential for significant value uplift over the longer-term if V prices recover as we expect.

- ▶ **Further production gains in Q3:** Group vanadium production in Q3 2023 increased by 19% relative to the prior quarter, to 1,000t, driven by a much-improved performance at Vanchem (output up 28% Q-on-Q) and more modest gains at the steadier-state Vametco operation (+12%). The upturn in output at Vanchem – which contributed 455t to the group's Q3 total – reflects gains from the operational 'turnaround' initiatives implemented earlier this year, which more than offset the negative impact of unplanned stoppages and a planned nine-day maintenance shutdown in September (which temporarily saw monthly production drop to 120t, down from 160t and 175t in July and August respectively). The success of the September maintenance shutdown was such that Bushveld believes Vanchem will no longer require the 25-day maintenance programme previously scheduled for the current quarter. Vametco contributed 545t to the Q3 group total, up from 485t in Q2 despite ongoing constraints associated with the barren dam and sulphate recovery plant, but also reliability challenges experienced at the leach plant. The latter have been resolved, and improvement work to address the former is progressing to plan to the extent that this section of the overall processing circuit is no longer considered a bottleneck to achieving a steady-state monthly rate of 200t (though Bushveld warns that it remains very sensitive to the impact of heavy rainfall).
- ▶ **Costs stabilising at lower level:** Weighted average group production cash costs (C1) were US\$26.5/kg in Q3, down 3% on the preceding quarter owing to the higher production rates and a still weak South African Rand (the local operating currency) relative to the US Dollar (the group's principal revenue currency). C1 costs over the first nine-months of the year demonstrate even more starkly the operational progress being made, at US\$26.4/kg being almost 9% lower than the corresponding period of last year (driven by the significant improvement at Vanchem, where C1 costs are now broadly in-line with those at Vametco).
- ▶ **Full-year guidance maintained, but soft V prices weigh:** Assuming it continues to operate at a steady monthly rate of c.200t through Q4, we think Vametco should meet Bushveld's full-year production target for the operation of 2,300-2,400t. And if Vanchem produces c.500t in Q4 as Bushveld expects, the full-year target for that operation of 1,400-1,500t could even be topped. We are thus confident that Bushveld remains on course to meet its 2023 full-year group consolidated production and weighted-average C1 cash cost guidance of 3,700-3,900t and US\$26.6-26.9/kg respectively. However, at US\$26-27/kg, prevailing FeV prices (Europe and China reference) have deteriorated further from the US\$31-36/kg averaged in Q3 (which in turn was lower than Bushveld's average realised price over the first half of the year of around US\$37/kg). We have lowered our full-year FeV price assumption from US\$36/kg to US\$33/kg accordingly, which reduces our 2023 full-year revenue and EBITDA by 8% and 62% respectively, to US\$137m and US\$5m.
- ▶ **Outlook:** Our revised EBITDA estimate highlights starkly just how levered Bushveld is to market V pricing, and therefore the importance of maintaining the progress made year-to-date in pushing down variable costs and – longer-term – in unlocking the full production potential of both operations given the relatively high fixed component of their respective cost bases. While we remain optimistic on the long-term outlook for vanadium given the compelling supply-demand fundamentals, prevailing soft pricing is clearly pressurizing margins. The first R150m (US\$8m) of interim funding received from Southern Point Resources (SPR) under the recently announced proposal to sell the latter a 50% interest in Vanchem together with Bushveld's stake in the greenfield Mokopane project is therefore a welcome boost to available working capital in the near term. Longer term, we continue to see potential for substantial valuation upside as FeV pricing recovers to our base-case target of US\$40/kg, and more so if Bushveld can realise long-held production expansion ambitions (particularly at Vanchem). However, key to unlocking this value – and thus the Bushveld investment proposition – remains successful completion by year-end of the proposed refinancing of the group's c.US\$45m (including accrued interest) of convertible debt with Orion Mine Finance and the proposed transactions with SPR thereafter. The latter includes a direct US\$12.5m equity investment in Bushveld that will be priced at the same level at which Orion agrees to convert a c.US\$4.5m portion of the outstanding debt obligations – this was provisionally set at 6p under the non-binding terms of the wider debt refinancing package detailed in May, but given the significant deterioration in Bushveld's share price since it is reasonable to expect this will be renegotiated down. This remains a material uncertainty on per-share dilution projections, and thus our valuation and per-share earnings estimates remain Under Review pending greater clarity on this aspect of the deals.

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