

Bushveld Minerals

Investment agreed to strengthen balance sheet

Bushveld Minerals (“BMN”) has announced that it has signed a binding term sheet with a South African investment group, Southern Point Resources (“SPR”), that should provide a strengthened balance sheet and greater financial flexibility through cumulative funding of up to US\$69.5m-US\$77.5m. As part of the funding package, BMN will sell down 50% of its interest in the Vanchem plant and its 64% interest in the Mokopane deposit for a total consideration of US\$25m. In our view, this package represents a comprehensive funding solution for BMN that should provide a stable financial platform to support improved operational performance that in turn should drive a re-rating of the shares. We maintain a GBP9/sh price target and will update our valuation as the various elements of the package are approved and executed.

Total investment US\$69.5m-US\$77.5m with short term working capital support

The main elements of the funding package that has been agreed between BMN and SPR are: (i) a ZAR 150m (~US\$8.1m) interim working capital facility secured against production from Vanchem that can be drawn following consent from the existing funders and offtakers; (ii) the sale of 50% of the company’s interest in Vanchem and BMN’s 64% interest in the Mokopane project for ~US\$25m. Vanchem will be managed by BMN with support from SPR; (iii) an equity investment in BMN by SPR of ~US\$12.5m on terms that will match those agreed with Orion Mine Finance with SPR having the right to nominate a NED; (iv) a US\$25m-US\$30m trade finance working capital facility with SPR taking on all product marketing and sales for BMN, although existing marketing agreements will be extended to the end of December 2024. The marketing and sales agreement will run for three years and will be extendable for a further three years at SPR’s discretion; (v) a potential future commitment by SPR to fund a US\$7m-US\$10m investment in Vanchem to refurbish Kiln-1 subject to a feasibility study. Previous work suggested that the refurbishment of Kiln 1 would cost US\$37m and would increase plant production to 4.6kt-4.7kt.

Mokopane and Vanchem transaction will result in book value losses

The value being attributed to Vanchem in the package is below the US\$103m that we had attributed to the asset and its US\$62.2m book value. BMN notes that this should result in a US\$9.8m book value loss. In addition, the Mokopane deposit has a book value of US\$53.5m and following the completion of the transaction a book value loss of US\$49.8m will be recognised. We believe that given the company’s current financial circumstances, with YE2022 ND/underlying EBITDA of 3.56x, this package is rational as it provides a route to provide flexibility in the balance sheet and then strengthen it with the asset sell down and equity raise. In addition, SPR is currently in the process of acquiring the Highveld Steel complex that could supply vanadium rich slag to Vanchem at a lower cost to mined ore and if SPR develops Mokopane. This would also provide consistent quality feed over the life of the mine. In its H1 operational results, BMN cut 2023 production guidance to 3,700tV - 3,900tV (from 4,200 tV -4,500tV) with cost guidance narrowed to US\$26.6/kgV - US\$26.9/kgV, (from US\$26.1/kgV - US\$27.0/kgV). We expect production of 3,700tV at a cost of US\$26.76/kgV. The driver of the downgrade was due to challenges with the Vametco dam and sulphate recovery plant, and weak performance at Vanchem coupled with delays to the delivery of better quality ore.

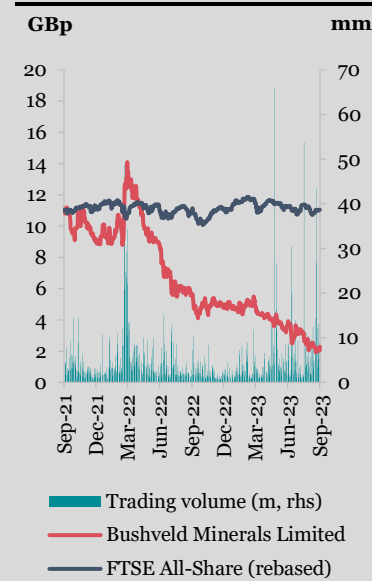
GBP9 TP; re-rating driven by production, cost and balance sheet stabilisation

We value BMN using a DCF model for the company’s operations, based on the existing reserve. We use a 10% WACC and assume an average received vanadium price of US\$41/kg over the long term. We maintain a GBP9/sh price target. The company should publish its interim results on 21st September. The operational results for Q2/H1 have been released and the focus should be on whether the operational progress that had been noted for July has been maintained, as well as a focus on the initiatives planned by the new CEO.

GICS Sector	Materials
Ticker	AIM:BMN
Market cap 8-Sep-23 (US\$m)	31
Share price 8-Sep-23 (GBP)	2.00
Target price 31-Dec-23 (GBP)	9.00

+350%

Upside from current share price to our GBP9/sh target



The cost of producing this material has been covered by Bushveld Minerals Ltd as part of a contractual engagement with H&P Advisory Ltd.

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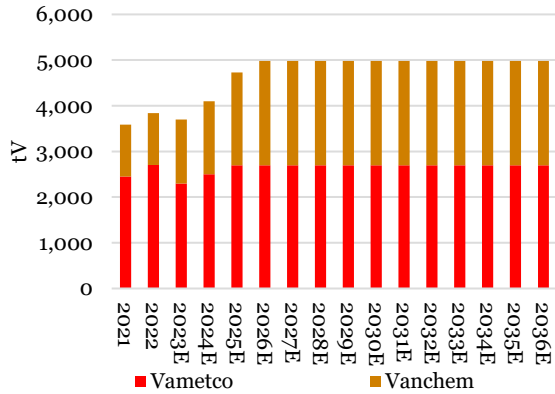
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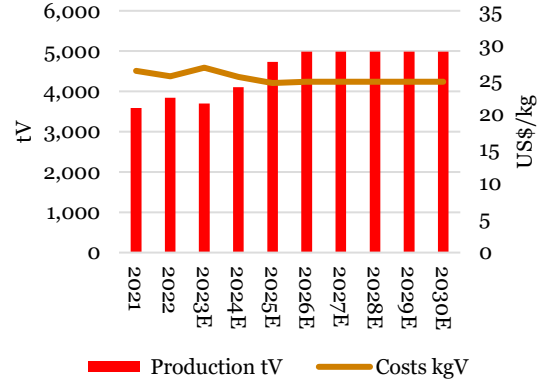
Key Charts

BMN vanadium production should increase



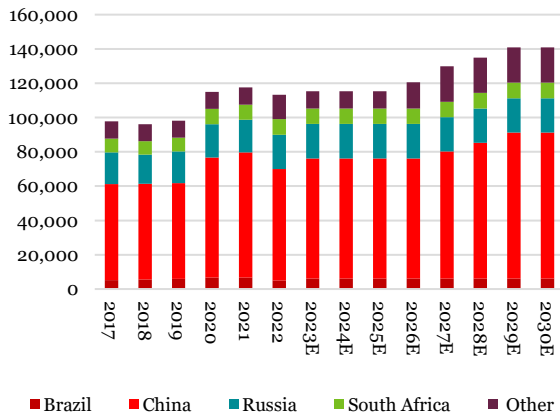
Source: Company, H&P estimates

With lower costs supporting higher margins



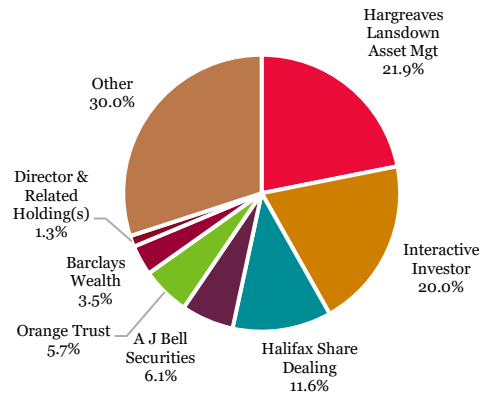
Source: Company, H&P estimates

H&Pe vanadium demand (in tonnes of contained V): prices should be supported by steel and driven by VRFB use



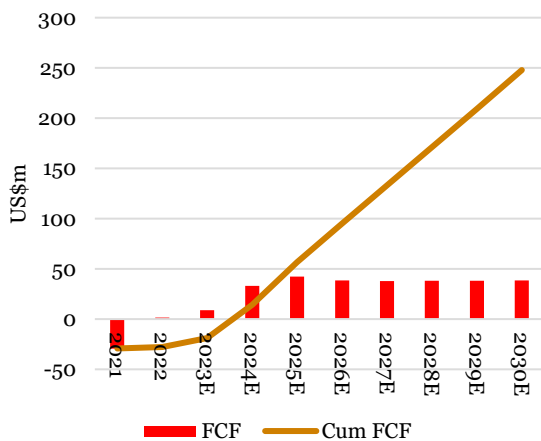
Source: H&P estimates

Shareholder structure



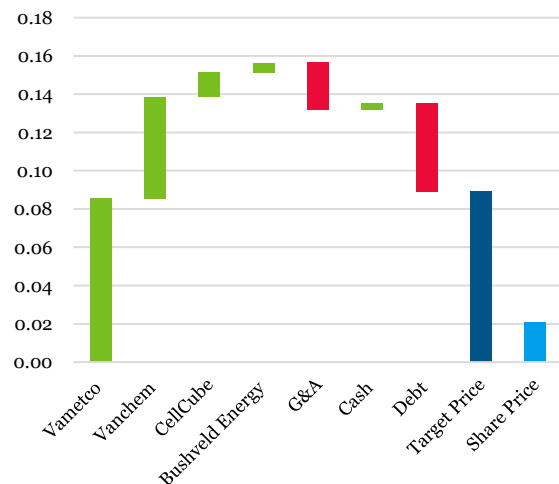
Source: Company reports as at 30 June 2023

FCF should build as capex pulls back



Source: Company reports, H&P estimates

BMN SOTP valuation



Source: H&P estimates, *TP rounded to nearest 1p

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