

10 May 2023

BMN LN Mining & Metals

Market data

Price (p)	4.3
Valuation (p)	14.0
12m High (p)	10.1
12m Low (p)	3.5
Shares (m)	1,287
Mkt Cap (£m)	55.9

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	2022e	2023e
Sales (\$m)	106.9	150.5	184.7
EBITDA (\$m)	(9.9)	18.1	34.9
EPS (\$/sh)	(0.03)	(0.00)	(0.00)
FCF (\$m)	(29.2)	4.2	6.1
EV/EBITDA (x)	na	7.1	3.9
P/E (x)	na	na	na
FCF yield (%)	na	6.0	8.8
Net debt (\$m)	62.2	58.8	63.4

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Bushveld Minerals*

CLN refinancing eases balance sheet pressure

The proposed loan note refinancing would reduce and defer a hitherto looming near-term debt liability whilst sculpting future debt repayments on a schedule more aligned with Bushveld's expected production growth and internal cash generation projections. Alleviating this near-term balance-sheet pressure will simplify the Bushveld investment proposition, untethering its shares for a potential upwards re-rating if the group can deliver on near-term operational targets. This in turn would provide Bushveld with a stronger base from which to evaluate funding options for its longer-term production growth ambitions.

- US\$45m debt refinancing deal agreed:** Bushveld has agreed non-binding (but investment committee approved) terms with Orion Mine Finance to refinance its existing convertible debt with the latter, which was hitherto repayable in full in November of this year given the original conversion price was a well out-of-the-money 17p/sh. The proposal envisages that total obligations of c.US\$45m (comprising the US\$35m principal plus c.US\$10m of interest accrued since the notes were issued in 2020) will be restructured into the following three components: 1) a new c.US\$27m term loan, repayable in escalating capital amounts over three years; 2) a new five-year convertible loan note of c.US\$13.5m, maturing in June 2028; and 3) the conversion by Orion of the c.US\$4.5m balance of the existing convertible notes into Bushveld shares at an amended conversion price of 6p/sh. In addition, Bushveld has agreed to grant Orion a 'top up' on the gross revenue component of its existing production financing agreement (PFA) with the latter, with Orion entitled to an additional 0.18-0.22% (applicable rate dependent on prevailing vanadium price) of gross revenue from vanadium product sales during the three-year period of the new term loan, over and above the 1.175-1.45% it already receives under the PFA. The top-up will reduce by 80% upon the term loan reaching maturity.
- Alleviates near-term balance-sheet pressure:** The proposed new debt structure removes a substantial near-term repayment liability and re-sculpts future repayment obligations over a three to five-year schedule that is better aligned with Bushveld's expected internal cash generation projections. Just 25% principal of the new US\$27m term loan must be repaid in June 2024, escalating to 30% in June 2025 and with the 45% balance due in June 2026 (early repayment is permissible, subject to a sliding fee). These escalating repayment amounts mirror an anticipated rising vanadium production profile from the group's Vametco and Vanchem facilities over the coming years. The loan carries an interest rate margin of 6% plus the greater of three-month SOFR or 3% pa. The new US\$13.5m convertible loan note does not mature until 30 June 2018, and has an 8p exercise price and 12% pa coupon. Of the US\$4.5m balance of the existing notes that are being converted by Orion, the 6p/sh conversion price equates to a 46% premium to Bushveld's weighted average share price over the past month.
- Valuation:** The proposed refinancing terms are less dilutive to value than our prior conservative assumption that the entire US\$35m loan note (plus accrued interest) would be converted to equity at 5p/sh, albeit our estimate of future debt servicing costs are now higher. Accordingly, our risked long-term target valuation increases by 17%, to 14p. Our NPV-based valuation continues to incorporate a base-case scenario of group vanadium production increasing from 2023's guided 4,200-4,500t to a sustainable rate of 5,000-5,400t pa over the next couple of years (a rate Bushveld has previously indicated should be achievable without significant additional capex). It also continues to incorporate a heavily risk-discounted estimate of the incremental value uplift from a potential future staged capacity expansion to c.8,000t pa, in line with the parameters detailed in last year's feasibility studies (a project Bushveld is clear it will only sanction once near-term targets are met and funding is secured). We expect Bushveld's imminent annual results to show a return to positive EBITDA in 2022, and we forecast further EBITDA growth this year, if 2023 production and cost guidance is achieved. But given the relatively high fixed component of costs at both Vametco and Vanchem, increasing production rates further will be key to unlocking more material margin expansion longer term. Our forecasts assume a flat US\$40/kg vanadium price (FeV basis) – markets were trading around that level in Q1, but prices have fallen below US\$35/kg over recent weeks. While we consider the long-term market fundamentals to be supportive of our pricing assumptions, near-term volatility is a potential risk to our estimates being realised.

Proposed convertible loan note refinancing

Bushveld has entered into a non-binding (though investment committee-approved) term sheet with mining-specialist investment group Orion Mine Finance to refinance its c.US\$45m of existing convertible loan note (CLN) obligations with the latter. The debt obligations comprise the principal US\$35m convertible note maturing in November of this year (and hitherto convertible at 17p per share, a price significantly above Bushveld's recent share price), plus accrued interest since the CLN was issued in late 2020.

The term sheet proposes that that the debt obligations will be refinanced into the following three components:

- ▶ **New c.US\$27m term loan:** Approximately 60% of the current CLN balance (c.US\$27m) will be converted into a three-year secured term loan carrying an annual interest rate of a 6% margin plus the greater of 3% or the prevailing three-month Secured Overnight Financing Rate (SOFR – currently over 3%). Interest must be paid in cash, payable quarterly in arrears. Principal repayments have been agreed on the following schedule:

- 25% in June 2024
- 30% in June 2025
- 45% in June 2026

Bushveld would have the right to repay the facility in whole or in part at any time earlier, subject to early-redemption fees of 2-4% depending on time.

- ▶ **Five-year c.US\$13.5m convertible loan note:** Approximately 30% of the CLN balance (c.US\$13.5m) is to remain as a convertible loan note, but with a revised maturity date of 30 June 2028 (compared with the November 2023 maturity date of the existing CLN) and an exercise price of 8p (compared with the existing CLN's 17p exercise price). The revised loan note will carry a fixed annual interest rate of 12% (up from 10% on the existing CLN).

Bushveld will be awarded a one-time right to redeem 50% (in whole and not in part) of the new convertible note in June 2026, subject to the right of Orion to elect for conversion of the same for a 30-day period. Bushveld will also have the right to force conversion of the new note if the 60-day volume-weighted average price of its share exceeds 16p.

- ▶ **Conversion of c.US\$4.5m into BMN shares at a premium:** The 10% balance of the existing CLN (c.US\$4.5m) is to be capitalised into an Orion subscription for shares in Bushveld at 6p per share, a 46% premium to the weighted average price of Bushveld's shares over the 30 days prior to the proposal announcement.

PFA top-up

The refinancing will also see a supplemental addition to Orion's entitlements under the existing Production Financing Agreement (PFA), whereby Orion receives quarterly payments from Bushveld based on its revenue levels (the 'gross revenue rate' component) and vanadium production levels (the 'unit of production rate' component) in return for the US\$30m Orion advanced to Bushveld in late 2020 (at the same time as the US\$35m existing CLN funding was advanced).

The proposed supplemental 'top-up' applies to the gross revenue rate component of the PFA, whereby Orion will receive quarterly payments equal to an additional 0.22% of Bushveld's gross revenue from vanadium sales if its average realised vanadium price (FeV basis) during the period is less than US\$47/kg (on top of the

1.45% it is entitled to under the existing PFA), or an additional 0.18% if Bushveld’s average realised vanadium price is greater than US\$47/kg (on top of the 1.175% rate that Orion would otherwise be entitled to under the existing PFA at such vanadium pricing levels). The top-up rate will be reduced by 80% once the newly proposed c.US\$27m term loan matures in June 2027.

Conditions precedent to completion

The proposed refinancing has been provisionally approved by Orion's investment committee, but its completion is conditional on final due diligence, legal documentation and final investment committee approval. The proposal will also require approval from Bushveld’s shareholders at a general meeting to be scheduled.

Valuation

We have updated our risk-adjusted sum-of-the-parts valuation to incorporate the proposed refinancing terms. Previously, we had conservatively assumed the entire US\$35m CLN principal plus accrued interest would be converted at a nominal 5p per share. The proposed refinancing terms are less dilutive to value than our prior assumptions, albeit the positive impact on our sum-of-the-parts is partially offset by now higher estimated future debt servicing costs associated with the proposed new c.US\$27m term loan, revised c.US\$13.5m convertible note and PFA top-up.

The net impact is a 17% increase in our risk-adjusted long-term valuation target, to 14p per share (rounded). Note that, as before, the Orion PFA principal and servicing costs (including the supplemental ‘top-up’ rate) are incorporated in our NPV estimates of Vametco and Vanchem production base and expansion-upside cases.

Figure 1: Risk-adjusted sum-of-the-parts valuation*

		Unrisked		Risk	Risked
		US\$m	GBP/sh	multiple	GBP/sh
Vametco-Vanchem base**	NPV _{8%}	271	16.1	0.9x	14.5
Expansion upside**	NPV _{8%}	168	10.0	0.5x	5.0
BELCO	nominal	25	1.5		1.5
Bushveld Energy and other	nominal	10	0.6		0.6
EV		474	28.1		21.5
G&A and debt service costs	NPV _{8%}	(94)	(5.6)		(5.6)
Net debt (excluding PFA)	estimate***	(31)	(1.9)		(1.9)
NAV		349	20.7	0.7x	14.1

*Assumes long-term US\$40/kg FeV price, R17:US\$1 FX rate and 1,347m 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 ARC estimate of 2022 year-end cash

Source: ARC estimates

Figure 2: Un-risked NAV_{8%} (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	16.50	0	6	12	18	25	31	37
	17.00*	2	8	15	21	27	33	40
	17.50	4	10	17	23	29	35	42
	18.00	6	12	19	25	31	37	44
	18.50	8	14	20	26	33	39	45

*Valuation base-case assumptions

Source: ARC estimates

Summary forecasts

Figures 3-5 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. We have updated our 2023 estimates to incorporate the proposed structure and terms of the CLN refinancing.

Figure 3: 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
South African Rand	ZAR:USD	14.4	16.5	14.8	16.4	17.0

Source: ARC estimates

Figure 4: Summary Bushveld Minerals consolidated financial statements

		2019	2020	2021	2022E	2023E
Income Statement						
Revenue	US\$m	116.5	90.0	106.9	150.5	184.7
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	16.9
Net finance costs	US\$m	1.9	(4.7)	(11.2)	(6.5)	(6.5)
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)	10.4
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)	6.2
Cash Flow Statement						
Operational CF before WC changes	US\$m	23.9	(18.4)	(7.1)	20.6	33.2
Working capital changes	US\$m	4.6	1.3	(5.0)	5.3	(17.6)
Cash flow from operations	US\$m	28.5	(17.1)	(12.1)	25.9	15.6
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)	(5.8)
Cash flow from financing activities	US\$m	13.3	47.4	(7.0)	(10.4)	(6.8)
Increase/(decrease) in cash	US\$m	(8.0)	17.0	(36.3)	(6.2)	(0.6)
Balance Sheet						
Cash	US\$m	34.0	50.5	15.4	9.2	8.6
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	93.7
Total assets	US\$m	334.8	355.9	300.7	299.4	300.1
Payables	US\$m	15.7	22.1	39.1	45.1	37.2
Debt	US\$m	41.8	85.8	77.6	68.1	72.0
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	141.8
Total equity	US\$m	241.1	214.0	150.8	153.7	158.3
Total liabilities & equity	US\$m	334.8	355.9	300.7	299.4	300.1

Source: ARC estimates

Figure 5: 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	1,347.1
EBITDA	US\$m	32.6	(14.9)	(9.9)	18.1	34.9
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	6.1
Net debt/(cash)*	US\$m	7.7	33.7	62.2	58.8	63.4
EV/EBITDA	x	4.1	na	na	7.1	3.9
FCF yield	%	na	na	na	6.0%	8.8%

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

Source: ARC estimates

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