

Bushveld Minerals

Transaction

Conditional deal eyes producing mine and plant

Metals & mining

The planned acquisition of the Vametco vanadium mine from Evraz could, on completion, be a major transformational event for Bushveld (BMN). It would move BMN closer to being a fully vertically integrated vanadium explorer-producer-seller. The sale of vanadium in the currently oversupplied market will be greatly supported by BMN's move into the vanadium redox flow-battery space. Advanced discussions are underway relating to a placing of shares and/or co investment to fund the deal.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
02/14	0.0	(1.4)	(0.4)	0.0	N/A	N/A
02/15	0.0	(3.2)	(0.6)	0.0	N/A	N/A
02/16e	0.0	(2.1)	(0.3)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Deal brings vanadium production and reserves

The Vametco operation can currently produce 2,750t of Nitrovan (vanadium nitride), Evraz's proprietary steel hardening ingredient, and also vanadium oxide. Evraz produced 2,419t during 2015. Bushveld states capacity could increase to 3,340t through de-bottlenecking certain plant aspects. The deal also brings 24 years' worth of compliant reserves (27Mt at 2.55% V₂O₅ in magnetite), which sit within 135Mt of resource. Vanadium production is currently used in the steel industry, though Bushveld intends to re-configure the plant towards production of vanadium electrolyte used in the vanadium redox flow-battery energy storage market. Bushveld's move into the energy storage market has gathered pace recently, as it signed an MoU with US company UniEnergy Technologies (UET), announced April 2016, for the development and promotion of redox flow-battery technology.

Further financing needed

The acquisition of Vametco will be executed via a share purchase agreement for all of the 78.8% economic interest held by Evraz in Strategic Minerals Corporation, which owns the producing Vametco Mine in South Africa. The Vametco deal is contingent on financing being secured. We understand that Bushveld has already paid US\$1.0m of the US\$4.7m required for Tranche 1, with the remaining US\$3.7m and US\$12.5m for Tranche 2 to be financed via equity and possibly debt.

Valuation: More information needed, but on its way

The Vametco operation produces Nitrovan, which sells at a premium price to standard V₂O₅ flakes. For ease of comparison and to better understand Bushveld's best estimate of Vametco's costs, we convert the Nitrovan US\$17.33/kg cost of production into V₂O₅ terms. This results in US\$2.20/lb versus a V₂O₅ price of US\$3.45/lb and demonstrates that the operation is profitable on a vanadium pentoxide-equivalent price basis. Bushveld intends to publish details of the Vametco operation in the coming weeks, on which basis we will provide a detailed note on the potential value of the Vametco deal and, by extension, Bushveld's renewable energy-focused business strategy.

18 May 2016

Price **2.45p**
Market cap **£12m**

US\$/£:1.44

Net cash (£m) at end August 2015 6.1

Shares in issue 486.3m

Free float 50%

Code BMN

Primary exchange AIM

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	0.0	(4.9)	(30.5)
Rel (local)	2.4	(7.4)	(22.5)

52-week high/low 4.40p 2.13p

Business description

Bushveld Minerals is an AIM-listed junior diversified commodity explorer in the mineral-rich Bushveld Complex in South Africa. Other than the Vametco deal, its projects include an iron-titanium-vanadium deposit on the Bushveld complex's northern limb (Mokopane). It also has coal and tin interests acquired via takeover of Lemur Resources completed in 2015.

Next events

Tranche 1 completion 17 June 2016

Tranche 2 completion 17 June 2017

Deal financing TBC

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Financials

We have updated our financial model for Bushveld's FY15 and H116 results released 26 August and 30 November 2015, respectively. Bushveld's H116 corporate G&A was £0.95m, or £1.91m annualised, which would point to a significant year-on-year reduction of 40% (FY15: £3.2m).

Based on H116 capital expenditure of £1.4m, we estimate end FY16 (year-end 28 February) capex to have been £2.6m, resulting in a material 71% reduction in our previous FY16e capex assumption from £9.7m to £2.8m. At end August 2015 the balance sheet had cash of £6.1m which, on the above expenditures, we forecast will have reduced to £2.1m by end FY16.

The material reductions in our forecast G&A and capex figures, in our view, reflect management's prudent reaction to a falling vanadium price and a subsequent re-focusing of the company's activities, including the launch of its Bushveld Energy platform in April 2016 and the Vametco deal, announced 9 May 2016.

Mokopane – no news expected

The Mokopane vanadium PFS states a US\$7.7m requirement to complete further technical studies (ie a BFS). Bushveld states the BFS would require strategic partner involvement to complete. With the Vametco announcement we consider that the Mokopane BFS is effectively on hold as strategic partner involvement in the current market does not appear forthcoming.

Exhibit 1: Financial summary

	£000s	2013	2014	2015	2016e
Year end 28 February		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		0	0	0	0
Cost of Sales		0	0	0	0
Gross Profit		0	0	0	0
EBITDA		(2,359)	(1,322)	(3,206)	(1,909)
Operating Profit (before GW and except.)		(2,359)	(1,376)	(3,206)	(2,050)
Intangible Amortisation		0	0	0	0
Exceptionals		0	960	317	180
Other		0	0	0	0
Operating Profit		(2,359)	(417)	(2,889)	(1,869)
Net Interest		105	0	0	0
Profit Before Tax (norm)		(2,254)	(1,376)	(3,206)	(2,050)
Profit Before Tax (FRS 3)		(2,254)	(417)	(2,889)	(1,869)
Tax		0	0	0	0
Profit After Tax (norm)		(2,254)	(1,376)	(3,206)	(2,050)
Profit After Tax (FRS 3)		(2,254)	(417)	(2,889)	(1,869)
Average Number of Shares Outstanding (m)		235.9	330.4	446.8	486.2
EPS - normalised (p)		(1.0)	(0.4)	(0.6)	(0.3)
EPS - FRS 3 (p)		(1.0)	(0.1)	(0.6)	(0.2)
Dividend per share (p)		0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A
BALANCE SHEET					
Fixed Assets		53,637	54,207	55,852	60,026
Intangible Assets		53,314	53,981	55,771	55,771
Tangible Assets		74	225	80	4,254
Investments		249	0	0	0
Current Assets		1,355	9,318	7,742	2,272
Stocks		0	0	0	0
Debtors		50	141	147	147
Cash		1,305	9,177	7,596	2,125
Current Liabilities		(199)	(344)	(464)	(909)
Creditors		(199)	(344)	(464)	(909)
Short term borrowings		0	0	0	0
Long Term Liabilities		0	0	0	0
Long term borrowings		0	0	0	0
Other long term liabilities		0	0	0	0
Net Assets		54,793	63,180	63,130	61,389
CASH FLOW					
Operating Cash Flow		(1,958)	(1,188)	(2,943)	(1,316)
Net Interest		105	0	0	0
Tax		0	0	0	0
Capex		(2,059)	(1,065)	(1,330)	(2,628)
Acquisitions/disposals		(120)	8,325	0	(1,508)
Financing		5,317	1,797	2,597	(19)
Dividends		0	0	0	0
Net Cash Flow		1,286	7,869	(1,676)	(5,471)
Opening net debt/(cash)		1,555	(1,305)	(9,177)	(7,596)
HP finance leases initiated		0	0	0	0
Other		1,574	3	95	0
Closing net debt/(cash)		(1,305)	(9,177)	(7,596)	(2,125)

Source: Bushveld Minerals accounts, Edison Investment Research

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