

BLACK ROCK MINING LIMITED (BKT)

INCREASINGLY BECOMING STRATEGIC TO POSCO FUTURE M

Analyst

Carlos Crowley Vazquez

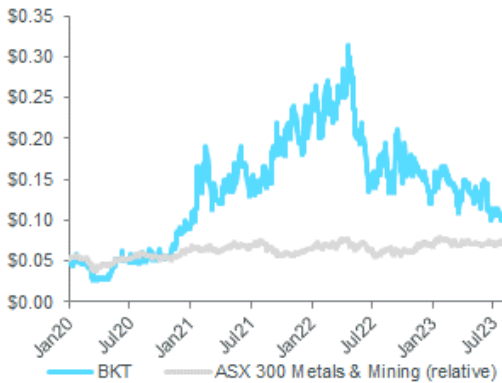
Date

8 August 2023

BUY

SHARE PRICE	TARGET PRICE	IMPLIED RETURN
\$0.10	\$0.67	570%

SHARE PRICE CHART – LAST 3 YEARS



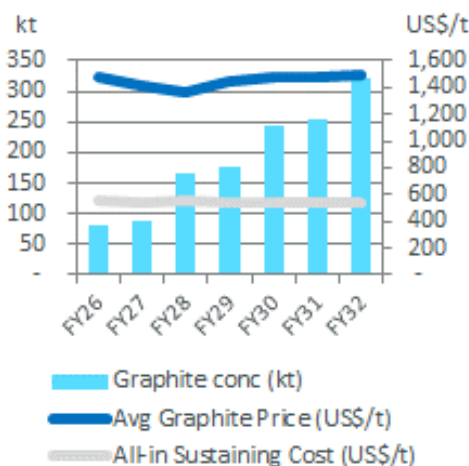
COMPANY DATA & RATIOS

Share Price (\$ per share)	0.10
Risk Adjusted NAV (\$ per share)	0.67
Implied Return (%)	570%
Enterprise Value (\$m)	104.4
Diluted MCap (\$m)	116.1
Diluted Shares (m)	1,161
Avg Daily Value (\$m)	0.34
Free Float (%)	88%
GICS	Materials
Commodity	Graphite

MAJOR SHAREHOLDERS

POSCO	12%
Copulos Group	11%
Board & Management	3%

PRODUCTION AND COST PROFILE



POSCO'S ANNUAL BATTERY MATERIALS VALUE DAY

POSCO Holdings (005490.KS) and POSCO Future M (003670.KS) have become market darlings on the Korea Exchange, materially outperforming the KOSPI. We believe this outperformance is mainly driven by POSCO's clear path to grow beyond an innovative steelmaking company into the most competitive battery materials player globally.

On its recent 2nd Annual Battery Materials Business Value Day, POSCO provided an update of its targets for battery materials and these figures are nothing short of spectacular! The updated 2030 targets will position POSCO as a Top 3 global producer of Lithium (423kt – its strategic partnership with PLS will continue to be key), **the largest anode producer ex-China (370kt – its strategic partnership with BKT is the cornerstone)** and a global top producer of cathode (1Mt). POSCO plans to invest US\$93Bn for growth across green steel (39%), battery materials (46%) and hydrogen (15%) to achieve its strategic objective of becoming market dominant and develop new infrastructure, including US IRA compliant supply chains.

Graphite is a key material for lithium batteries, across all chemistries, although it is relatively opaque from a commercial perspective (73% of global production is from China) and relatively complex from a processing perspective (100% of processing is done in China). POSCO Future M is a leading chemicals company with world class manufacturing capabilities, strong financial capacity (Market Cap US\$25.9Bn) and is well positioned to become a leader in establishing IRA compliant supply chains. Black Rock is positioned front and centre to support POSCO's anode strategy due to the significant amount of historic work (and associated costs) done on qualifying product from its Ulanzi deposit across POSCO's LiB supply chain culminating in a binding offtake for Module 1 fines.

We believe that due to Mahenge's scale, cost competitiveness, high quality, the magnitude of POSCO's natural graphite requirements and the time + cost required to qualify new sources across the entire LiB/EV supply chain, POSCO would be the natural buyer of fines for Mahenge's 4 modules. Furthermore, we also view Mahenge's cost competitiveness as key to POSCO's plans to develop anode facilities ex China that are cost competitive with those already operating in China.

KEY CATALYSTS

Short term news flow includes: (i) credit approved debt term sheets, (ii) completion of strategic partnership process and/or development equity raise and (iii) Final Investment Decision.

RETAIN BUY, TP \$0.67

We retain our Buy recommendation and have adjusted the price target (previously \$0.77) to reflect dilution from the recent \$10m capital raise and our updated view that Mahenge could reach FID by the end of CY2023.



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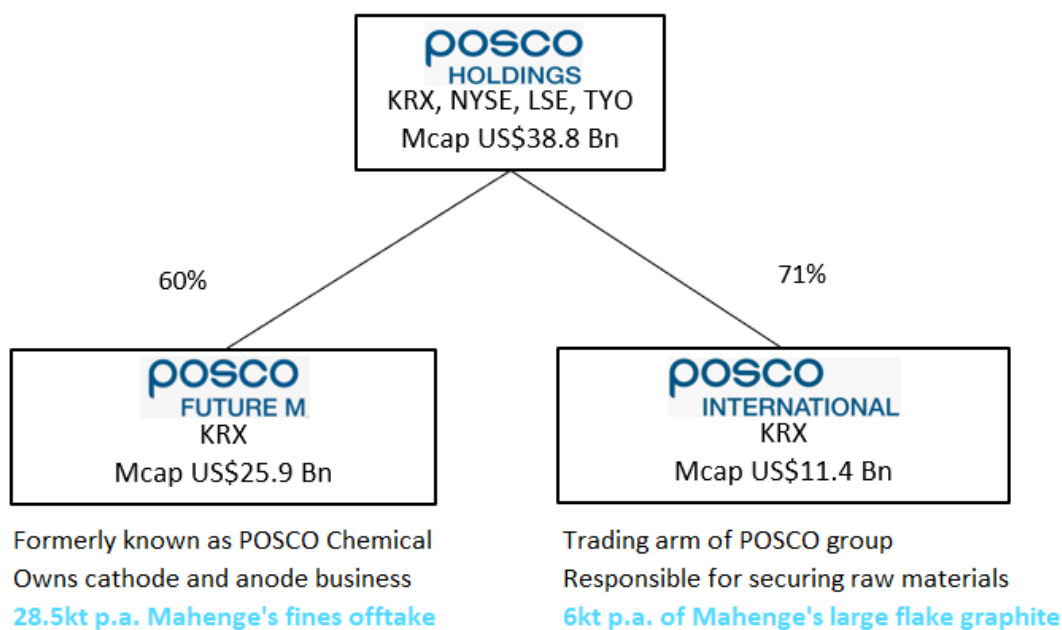
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POSCO'S STRATEGY: LARGEST EX-CHINA ANODE PRODUCER

OVERVIEW

POSCO is a South Korean group with global operations in steel, engineering & construction, chemical products and trading. POSCO Holdings is listed on different exchanges and some of its subsidiaries are also listed on the Korean Exchange. Of particular relevance for Black Rock, POSCO Future M (previously POSCO Chemicals) was created in 2019 after the merger of its cathode and anode business. POSCO Future M is now the main focus for investment due to higher expected growth and higher returns on capital. The following diagram illustrates the relevant groups from Black Rock's perspective.

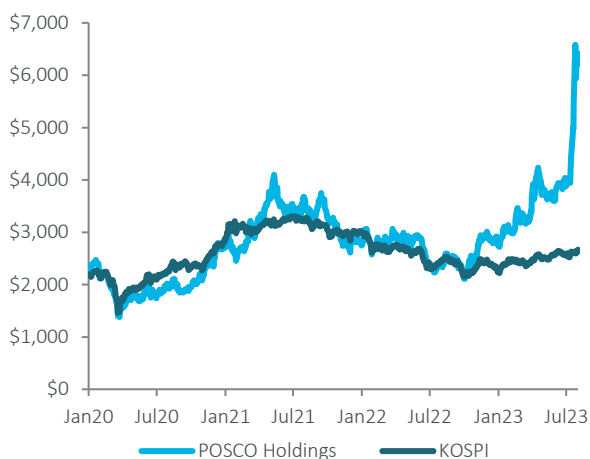
FIGURE 1: GROUP STRUCTURE



Source: Company, IRESS

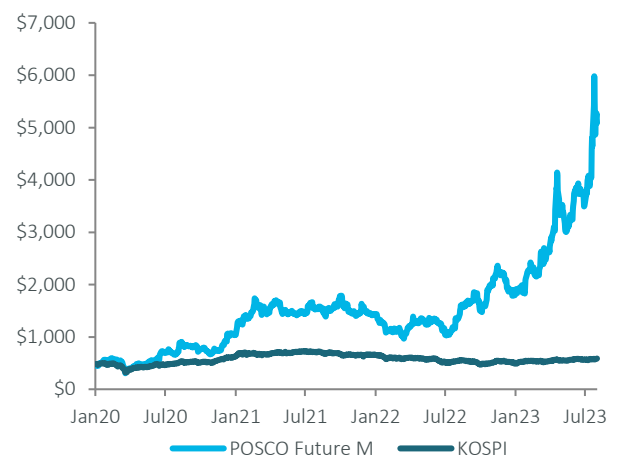
POSCO Holdings is one of the largest companies listed on the Korean Exchange. The following charts illustrate its performance (and recent outperformance) vs the KOSPI as well as POSCO Future M's stronger relative performance vs the KOSPI.

FIGURE 2: POSCO HOLDINGS VS KOSPI



Source: IRESS

FIGURE 3: POSCO FUTURE M VS KOSPI



SNAPSHOT OF 2ND ANNUAL BATTERY MATERIALS VALUE DAY

In this section we provide a summary of the most relevant slides from POSCO's 2nd Annual Battery Materials Value Day. The full presentation can be seen here: [The 2nd Annual POSCO Group Battery Materials Business Value Day - YouTube](#). The bottom line is that POSCO plans to invest over US\$40Bn in lithium battery materials and processing capacity to achieve market dominance.

FIGURE 4: UPDATED GROWTH TARGETS



Source: POSCO Holdings

POSCO is targeting revenue of US\$47.4Bn and EBITDA of US\$11.5Bn by 2030. From Black Rock's perspective, POSCO's target is to produce 370kt of anode (a 50kt increase vs the 320kt target from 2022). To reach this target, POSCO indicates will require 182kt of natural graphite anode (i.e. 520kt of graphite concentrate at 35% yield to SPG).

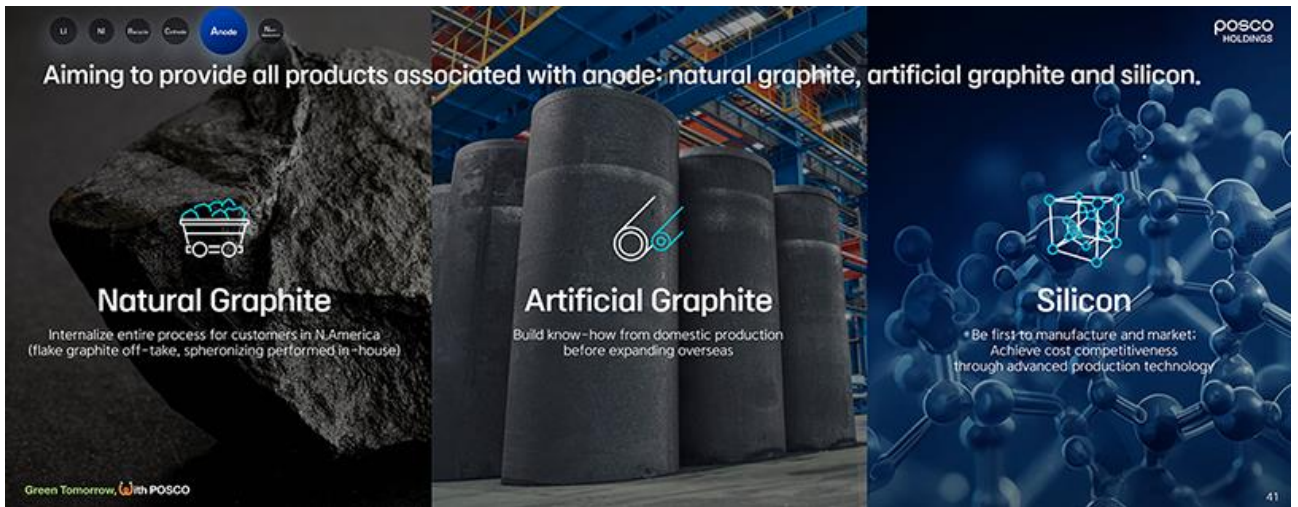
FIGURE 5: KEY MILESTONES WITH BKT INCLUDE FINES BINDING OFFTAKE AND LARGE FLAKE MOU



Source: POSCO Holdings

The combination of Mahenge's scale, low cost and ability to produce high-purity, low deleterious graphite concentrates culminated on a strategic alliance and binding offtake agreement with POSCO for the fines on Module 1. In addition, POSCO International has entered into an offtake MOU for 6ktpa of large flake.

FIGURE 6: EXPOSURE TO ALL PRODUCTS ASSOCIATED WITH ANODE



Source: POSCO Holdings

FIGURE 7: MEDIUM TERM TARGET OF 218KT OF ANODE



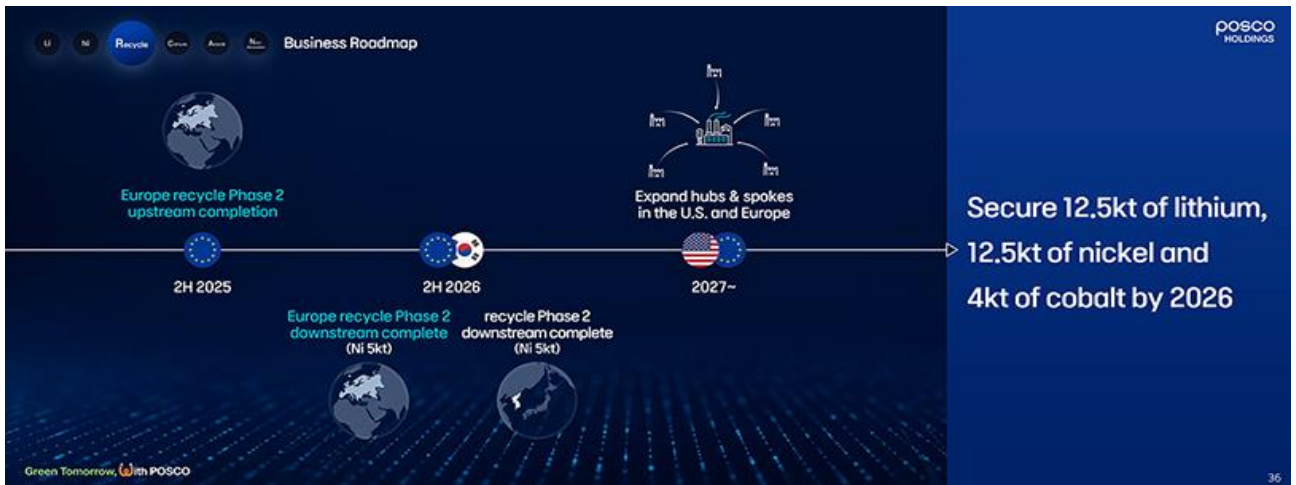
Source: POSCO Holdings

FIGURE 8: CLEAR TARGET TO BECOME THE LEADING EX-CHINA ANODE PRODUCER



Source: POSCO Holdings

FIGURE 9: SECURING MATERIALS KEY FOR ITS HUB AND SPOKE STRATEGY INTO USA AND EUROPE



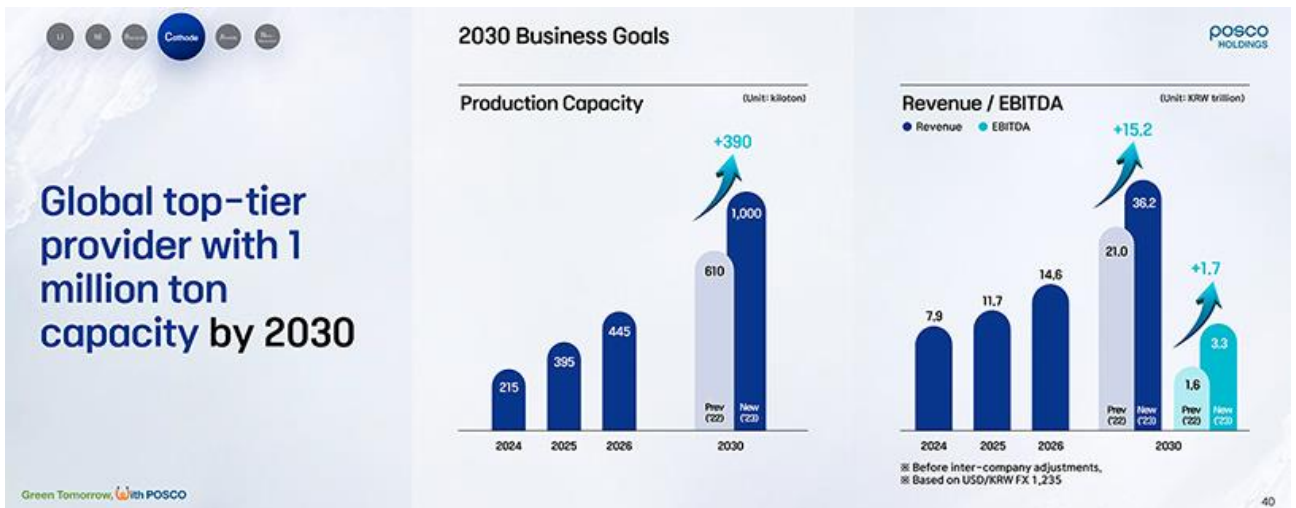
Source: POSCO Holdings

FIGURE 10: GLOBAL TOP 3 LITHIUM PRODUCER



Source: POSCO Holdings

FIGURE 11: LEADER PROVIDER OF CATHODE

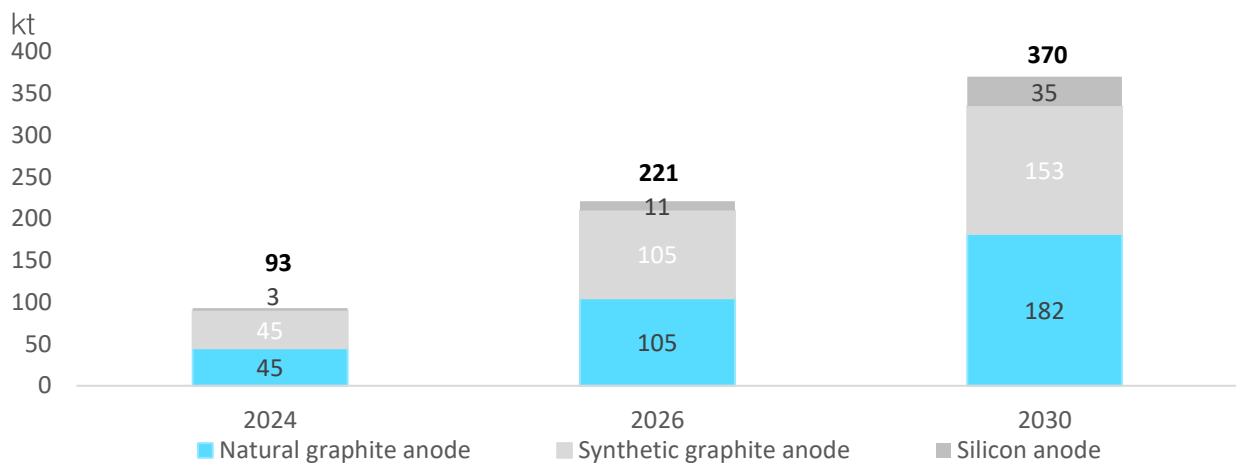


Source: POSCO Holdings

IMPLICATIONS FOR BKT?

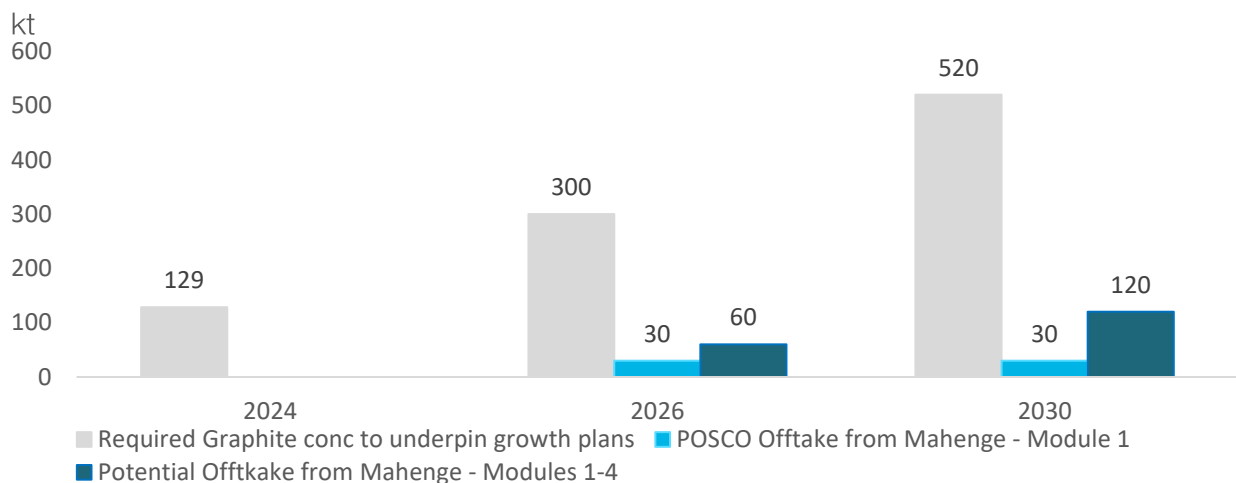
POSCO’s strategy to become the global ex-China leading producer of anode is critical for Black Rock beyond the existing binding fines offtake over Module one. To achieve its stated strategic objective, POSCO essentially has to double sourcing of natural graphite between 2024 and 2026 (when Mahenge is expected to be in production) and then double again by 2030. Based on the +4 year qualification process with BKT on the Ulanzi deposit, we don’t expect any other source of fines to be qualified before 2026.

FIGURE 12: POSCO’S ANODE GROWTH PLANS



Source: POSCO Holding The 2nd Annual POSCO Group Battery Materials Business Value Day

FIGURE 13: POSCO’S GRAPHITE CONCENTRATE (FINES) REQUIREMENTS VS MAHENG



Source: Company (based on typical industry yield to SPG in China of 35%), POSCO Holdings
 * Note: Based on the typical industry yield to SPG in China of 35%

We believe it is increasingly evident that Black Rock is becoming strategic to POSCO Future M and expect POSCO to be one of the strongest supporters of Mahenge’s Module 1 development (and subsequent expansions).

FINANCIAL MODEL SUMMARY



Black Rock Mining Limited

Code: BKT

Stock Details				Enterprise Value	
Recommendation:	BUY			Diluted MCap	\$116m
Target Price	\$0.67	Share Price	\$0.10	Diluted Shares	1161m
NAV	\$0.67	52 Week High	\$0.23	Free Float	87%
Implied Return	570%	52 Week Low	\$0.10	Avg Daily Value	\$0.34m

Macro Assumptions	FY22	FY23E	FY24E	FY25E	FY26E
Graphite Price, net (US\$/t conc)	1,203	1,138	1,266	1,452	1,472
Exchange Rate (A\$/US\$)	0.74	0.65	0.67	0.70	0.72

Profit & Loss (A\$m)	FY22	FY23E	FY24E	FY25E	FY26E
Revenue	-	-	-	-	168
Operating Costs	-	-	-	-	(61)
Operating Profit	-	-	-	-	107
Corporate & Other	(5)	(13)	(5)	(5)	(5)
Exploration Expense	-	-	-	(1)	(2)
EBITDA	(5)	(13)	(5)	(6)	100
D&A	(0)	(0)	-	(8)	(15)
EBIT	(5)	(13)	(5)	(14)	86
Net Interest Expense	-	-	-	-	(6)
Pre-Tax Profit	(5)	(13)	(5)	(14)	80
Tax Expense	-	-	-	-	(24)
Minorities	-	-	-	-	-
Underlying Profit	(5)	(13)	(5)	(14)	56
Significant Items (post-tax)	-	-	-	-	-
Reported Profit	(5)	(13)	(5)	(14)	56

Cash Flow (A\$m)	FY22	FY23E	FY24E	FY25E	FY26E
Operating Cashflow	(4)	(13)	(5)	(5)	102
Tax	-	-	-	-	(24)
Net Interest	-	-	-	-	(6)
Net Operating Cash Flow	(4)	(13)	(5)	(5)	72
Exploration	(11)	-	-	(2)	(2)
Capex	(0)	(12)	(115)	(163)	(154)
Acquisitions / Disposals	-	-	-	-	-
Other	-	-	-	-	-
Net Investing Cash Flow	(11)	(12)	(115)	(164)	(156)
Equity Issue	28	10	151	8	-
Borrowing / Repayments	-	-	148	148	49
Dividends	-	-	-	-	-
Other	-	-	-	-	-
Net Financing Cash Flow	28	10	299	155	49
Change in Cash Position	13	(15)	179	(14)	(34)
FX Adjustments	3	-	-	-	-
Cash Balance	27	12	191	177	143

Balance Sheet (A\$m)	FY22	FY23E	FY24E	FY25E	FY26E
Cash	27	12	191	177	143
Other Current Assets	1	1	1	1	1
PP&E	0	12	119	267	405
Exploration & Development	30	30	30	31	31
Other Non Current Assets	-	-	-	-	-
Total Assets	58	55	341	476	580
Debt	-	-	148	296	345
Other Liabilities	2	2	2	2	2
Net Assets	56	53	191	178	232

Ratio Analysis		FY22	FY23E	FY24E	FY25E	FY26E
Diluted Shares	m	977	1,161	2,832	2,867	2,867
EPS - Diluted	Ac	(1.1)	(0.6)	(0.3)	0.8	1.6
P/E	x	n.m.	n.m.	n.m.	12.6x	6.1x
CFPS - Diluted	Ac	(0.4)	(0.9)	(0.2)	(0.2)	2.5
P/CF	x	n.m.	n.m.	n.m.	n.m.	4.0x
FCF - Diluted	Ac	(0.4)	(2.2)	(4.2)	(5.9)	(2.7)
P/FCF	x	n.m.	n.m.	n.m.	n.m.	n.m.

Dividends	Ac	-	-	-	-	-
Dividend yield	%	-	-	-	-	-
Payout Ratio	%	-	-	-	-	-
Franking	%	-	-	-	-	-

Enterprise Value	A\$m	89	104	240	405	489
EV/EBITDA	x	(16.9x)	(8.2x)	(48.1x)	(65.1x)	4.9x
ROE	%	(10%)	(24%)	(3%)	(8%)	24%
ROA	%	(9%)	(23%)	(1%)	(3%)	10%
Debt	A\$m	-	-	148	296	345
Gearing (D/(D+E))	%	-	-	44%	62%	60%
Gearing (D/E)	%	-	-	77%	166%	148%

Reserves & Resources

Resource	Tonnes		Grade		Contained kt
	mt	% TGC	% TGC	kt	
Measured	31.8	8.6	8.6	2.7	
Indicated	84.6	7.8	7.8	6.6	
Inferred	96.7	7.4	7.4	7.2	
Total	213.1	7.8	7.8	16.6	

Reserve	mt	% TGC	kt
Probable	70.5	8.5	6.0
Total	70.5	8.5	6.0

Earnings Sensitivity			FY25E	FY26E	FY25E	FY26E
Graphite Price	US\$/t conc	+10%	8	12	22%	22%
FX Translation	A\$/US\$	-10%	5	7	12%	13%

Valuation	Discount	Stake	A\$m	A\$/sh
Mahenge (unrisked)	-	84%	1,348	1.16
Mahenge (risk-adjusted)	40%	84%	809	0.70
Exploration / Other projects	-	-	-	-
Corporate & Other	-	-	(44)	(0.04)
Debt	-	-	-	-
Cash	-	-	12	0.01
Cash from option strikes	-	-	1	0.00
Risk adjusted NAV	-	-	777	0.67

Source: Blue Ocean Equities

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Blue Ocean Equities Pty Limited acted as Joint Lead Manager for the BKT Placement in June 2023.

The Analyst of this report owns shares in Black Rock Mining Limited.