

BLACK ROCK MINING LIMITED (BKT)

MOVING AHEAD, SHARE PRICE RE-RATING OR NOT...

Analyst

Carlos Crowley Vazquez

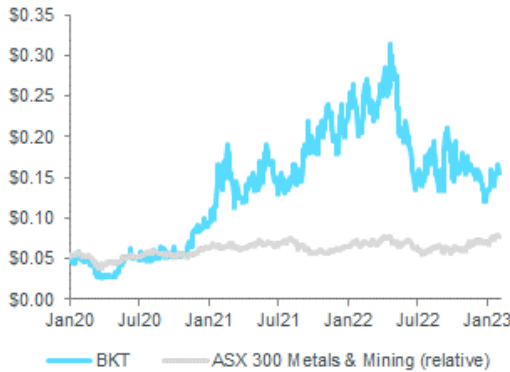
Date

1 February 2023

BUY

SHARE PRICE	TARGET PRICE	IMPLIED RETURN
\$0.16	\$0.77	397%

SHARE PRICE CHART – LAST 2 YEARS



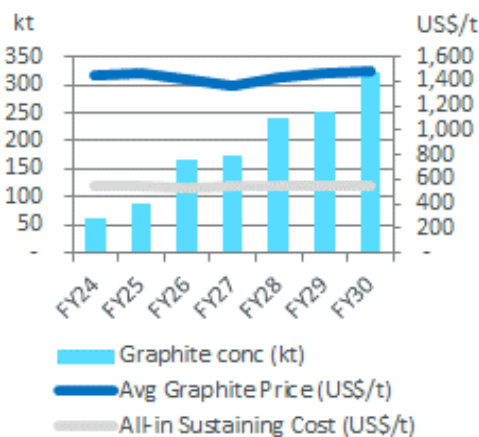
COMPANY DATA & RATIOS

Share Price (\$ per share)	0.16
Risk Adjusted NAV (\$ per share)	0.77
Implied Return (%)	397
Enterprise Value (\$m)	151
Diluted MCap (\$m)	162
Diluted Shares (m)	1,043
Avg Daily Value (\$m)	0.59
Free Float (%)	87%
GICS	Materials
Commodity	Graphite

MAJOR SHAREHOLDERS

POSCO	13%
Copulos Group	12%
Board & Management	6%

PRODUCTION AND COST PROFILE



ABOUT TO REACH A CRITICAL DECISION POINT...

Black Rock Mining is reaching a key stage in its development lifecycle being a shovel ready project, subject to finance as the senior debt process nears completion. The December 2022 quarterly highlighted management is exploring a wide range of financing options to develop Mahenge, including:

1. Traditional debt and equity
2. Selling offtake for rights to Modules 2, 3 and 4
3. Selling a minority interest at the Project level
4. Alternative funding options

The key threshold articulated by management will be to secure the best value per share outcome for shareholders.

The debt raising process (low cost, non-dilutive) is well advanced and expected to fund in the order of 50% of capex for Mahenge's first Module. We typically expect equity to re-rate after non-dilutive finance is secured as funding certainty increases and potential dilution decreases. However, **if there is NO re-rating in BKT's share price is a traditional equity raise the best option?** Potentially not for a Tier-1 asset due to the range of options readily available...

WHY AND WHO WANTS TO BUY INTO MAHENGÉ?

Mahenge is in our view the best graphite Project going into development (fully permitted, low cost, high value and low risk from a mining, processing, logistics, marketing perspective). BKT also has an experienced management team implementing a sound development, marketing and financing strategy. Management has attracted POSCO as strategic partner (the largest ex-China LiB anode materials producer), URBIX (one of the most interesting ex-China LiB anode materials new entrants) and we expect other groups seeking to secure high-quality, long-term graphite offtake in the mix. In addition, mining groups seeking exposure to Tier-1 assets within the EV thematic as well as Private Equity investors are likely to be part of such a process.

THE BEST VALUE/SHARE OPTION MAY BE A SELL DOWN...

Back-solving for the share price at which BKT would be indifferent between undertaking a traditional equity raise vs. selling a minority interest in Mahenge illustrates that there may NOT be a material development equity raising (potentially a key driver of BKT's undervalued share price). **Our analysis shows that a possible outcome from a minority Project sell down could potentially be equivalent to raising equity at \$0.40 to \$0.50 per share (or higher subject to finding a group with a strategic imperative)! From a value per share perspective, in the absence of a re-rating to these levels, a Project sell down may in fact be a likely outcome!**

RETAIN BUY, TP \$0.77

We retain our Buy recommendation and have adjusted the price target to reflect the cash balance (previously \$0.79). We expect the senior debt financing process to reach credit approved term sheets stage by the end of the March 2023 quarter and will assess then modifying our key assumption around development equity raise vs. project sell down to fund the equity gap between funding requirement and debt.

CONTENTS

PROJECT SELL DOWN VS EQUITY RAISE	3
FINANCIAL MODEL SUMMARY	4

PROJECT SELL DOWN VS EQUITY RAISE

Potential Project sell down illustrates market materially undervalues Mahenge ...

- BKT trades at < 10% of Mahenge's NPV (as publicly released by BKT: NPV@10%, post tax and post Tanzanian Government free carried interest) a clear disconnect for a high quality, low cost, fully permitted project, backed by POSCO and with strong tail winds behind the commodity.
- We understand that a range of parties, including strategic and private equity investors, are reviewing BKT's data room under CA.
- In the absence of a strategic group compelled to secure offtake and prepared to pay close to full value for a minority interest in the project, we consider that very conservative bookends from a sell down & valuation perspective are within:
 - a 20% project sell down at a 50% of NPV and
 - a 30% project sell down at a 20% of NPV.
- Selecting the 25% project sell down at 25% of NPV as a low threshold for a potential transaction, we back solve for the share price at which a traditional equity raise represents similar dilution.
- Based on this analysis, we estimate that BKT's management would potentially consider accepting an offer to sell down of 25% of Mahenge at 25% NPV as it would be equivalent to raising \$125m at \$0.39 per share unless BKT's share price to re-rate to a comparable level. However, if Black Rock is able to establish competitive tension in the sell down process, it may do better than this.

Comparison of Project Sell Down vs Equity Raise

Scenario	NPV@10%	FX	NPV@10%	Initial Shares	NPV / share	Value of sell down	% of NPV	BKT NPV	Final Shares	NPV / share	Dilution
Project Sell Down, % of NPV	USD M		AUD M	M shares	\$/share	AUD M	25%	AUD M	M shares	\$/share	%
20% at 50%	1,400	0.7	2,000	977	2.05	400	200	1,600	977	1.64	20%
25% at 25%	1,400	0.7	2,000	977	2.05	500	125	1,500	977	1.53	25%
30% at 20%	1,400	0.7	2,000	977	2.05	600	120	1,400	977	1.43	30%

Scenario	NPV@10%	FX	NPV@10%	Initial Shares	NPV / share	Equity Raise	Raise Sh. Price	BKT NPV	Final Shares	NPV / share	Dilution
Equivalent Equity Raise	USD M		AUD M	M shares	\$/share	AUD M	\$/share	100%	M shares	\$/share	%
Raise at mkt share price	1,400	0.7	2,000	977	2.05	125	0.16	2,000	1,759	1.14	44%
Raise at 15% discount	1,400	0.7	2,000	977	2.05	125	0.14	2,000	1,896	1.05	48%
Raise at 2x mkt share price	1,400	0.7	2,000	977	2.05	125	0.32	2,000	1,368	1.46	29%
Breakeven w 25% at 25%	1,400	0.7	2,000	977	2.05	125	0.39	2,000	1,298	1.54	25%
Breakeven w 20% at 50%	1,400	0.7	2,000	977	2.05	125	0.50	2,000	1,227	1.63	20%

Source: Company NPV, BOEQ estimates

FINANCIAL MODEL SUMMARY



Black Rock Mining Limited

Code: BKT

Stock Details				Enterprise Value	\$151m
Recommendation:	BUY			Diluted MCap	\$162m
Target Price	\$0.77	Share Price	\$0.16	Diluted Shares	1043m
NAV	\$0.77	52 Week High	\$0.33	Free Float	87%
Implied Return	397%	52 Week Low	\$0.13	Avg Daily Value	\$0.59m

Macro Assumptions	FY22	FY23E	FY24E	FY25E	FY26E
Graphite Price, net (US\$/t conc)	1,203	1,288	1,373	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	-	-	-	119	183
Operating Costs	-	-	-	(47)	(64)
Operating Profit	-	-	-	72	118
Corporate & Other	(5)	(7)	(5)	(5)	(5)
Exploration Expense	(1)	-	-	(1)	(2)
EBITDA	(6)	(7)	(5)	66	112
D&A	(0)	(0)	-	(8)	(15)
EBIT	(6)	(7)	(5)	58	97
Net Interest Expense	-	-	-	(6)	(14)
Pre-Tax Profit	(6)	(7)	(5)	52	83
Tax Expense	-	-	-	(16)	(25)
Minorities	-	-	-	-	-
Underlying Profit	(6)	(7)	(5)	37	58
Significant Items (post-tax)	-	-	-	-	-
Reported Profit	(6)	(7)	(5)	37	58

Cash Flow (A\$m)	FY22	FY23E	FY24E	FY25E	FY26E
Operating Cashflow	(5)	(7)	(5)	67	113
Tax	-	-	-	(16)	(25)
Net Interest	-	-	-	(6)	(14)
Net Operating Cash Flow	(5)	(7)	(5)	46	74
Exploration	(11)	-	-	(2)	(2)
Capex	(0)	(69)	(219)	(79)	(80)
Acquisitions / Disposals	-	-	-	-	-
Other	-	-	-	-	-
Net Investing Cash Flow	(11)	(69)	(219)	(80)	(82)
Equity Issue	28	149	5	2	-
Borrowing / Repayments	-	148	-	9	9
Dividends	-	-	-	-	-
Other	-	-	-	-	-
Net Financing Cash Flow	28	297	5	11	9
Change in Cash Position	12	222	(219)	(24)	2
FX Adjustments	3	-	-	-	-
Cash Balance	26	248	28	5	6

Balance Sheet (A\$m)	FY22	FY23E	FY24E	FY25E	FY26E
Cash	26	248	28	5	6
Other Current Assets	1	1	1	1	1
PP&E	0	69	280	344	408
Exploration & Development	30	30	30	31	31
Other Non Current Assets	-	-	-	-	-
Total Assets	57	348	340	381	446
Debt	-	148	148	157	166
Other Liabilities	2	2	2	2	2
Net Assets	55	198	190	221	278

Ratio Analysis		FY22	FY23E	FY24E	FY25E	FY26E
Diluted Shares	m	629	716	851	977	1,043
EPS - Diluted	Ac	(0.9)	(0.3)	0.6	3.0	5.1
P/E	x	n.m.	n.m.	25.3x	5.2x	3.0x
CFPS - Diluted	Ac	(0.5)	(0.4)	(0.3)	2.6	4.2
P/CF	x	n.m.	n.m.	n.m.	6.1x	3.7x
FCF - Diluted	Ac	(0.8)	(10.6)	(26.3)	(2.8)	0.8
P/FCF	x	n.m.	n.m.	n.m.	n.m.	18.5x
Dividends	Ac	-	-	-	-	-
Dividend yield	%	-	-	-	-	-
Payout Ratio	%	-	-	-	-	-
Franking	%	-	-	-	-	-
Enterprise Value	A\$m	136	62	281	314	321
EV/EBITDA	x	(22.6x)	(9.1x)	(56.2x)	4.7x	2.9x
ROE	%	(11%)	(3%)	(3%)	17%	21%
ROA	%	(11%)	(2%)	(1%)	10%	13%
Debt	A\$m	-	148	148	157	166
Gearing (D/(D+E))	%	-	43%	44%	42%	37%
Gearing (D/E)	%	-	75%	78%	71%	60%

Reserves & Resources			
	Tonnes	Grade	Contained
Resource	mt	% TGC	kt
Measured	31.8	8.6	2.7
Indicated	84.6	7.8	6.6
Inferred	96.7	7.4	7.2
Total	213.1	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
			A\$m	A\$m	%	%
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%	1,367	1.31
Mahenge (risk-adjusted)	40%	84%	820	0.79
Exploration / Other projects			10	0.01
Corporate & Other			(44)	(0.04)
Debt			-	-
Cash			11	0.01
Cash from option strikes			8	0.01
Risk adjusted NAV			805	0.77

CONTACTS

RESEARCH

CARLOS CROWLEY VAZQUEZ

Senior Resources Analyst
P +61 2 8072 2909
E carloscrowley@boeq.com.au

MATHAN SOMASUNDARAM

Market Portfolio Strategy
P +61 2 8072 2916
E mathan@boeq.com.au

NICHOLAS O'SHEA

Equity Analyst
P +61 2 8072 2935
E nicholaso'shea@boeq.com.au

REX ADAMS

Mining Consultant
P +61 2 8072 2921
E radams@boeq.com.au

GARRY MARSDEN

Energy Analyst
P +61 2 8027 2919
E garrymarsden@boeq.com.au

TEYA MURRAY

Equity Associate
P +61 2 8072 2920
E teyamurray@boeq.com.au

VIC LEE

Senior Equity Analyst
P +61 2 8072 2921
E viclee@boeq.com.au

STUART TURNER

Senior Equity Analyst
P +61 2 8072 2923
E stuartturner@boeq.com.au

SALES & TRADING

ADAM STRATTON

Director Sales & Trading
P +61 2 8072 2913
E adamstratton@boeq.com.au

ANDREW MURPHY

Institutional Sales & Trading
P +61 2 8072 2904
E amurphy@boeq.com.au

GAVIN TODD

Institutional Sales & Trading
P +61 2 8072 2922
E gavintodd@boeq.com.au

ANDY MCWILLIAM

Senior DTR
P +61 2 8072 2927
E andymcwilliam@boeq.com.au

DOC CROMME

Institutional Sales & Trading
P +61 2 8072 2925
E doccromme@boeq.com.au

JOSIE NICOL

Sales & Trading Associate
P +61 2 8072 2931
E josienicol@boeq.com.au

HEAD OFFICE

BLUE OCEAN EQUITIES PTY. LTD.

AFSL No. 412765
ABN 53 151186935

P +61 2 8072 2988
E info@boeq.com.au
W blueoceanequities.com.au

Level 29, 88 Phillip Street
Sydney NSW 2000
Australia

DISCLAIMER

This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of Blue Ocean Equities Pty Limited. This is general investment advice for Institutional and Sophisticated Investors only and does not constitute personal advice to any person. Because this document has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives you should consult your own investment adviser before any investment decision is made on the basis of this document.

While this document is based on information from sources which are considered reliable, Blue Ocean Equities Pty Limited has not verified independently the information contained in the document and Blue Ocean Equities Limited and its directors, employees and consultants do not represent, warrant or guarantee, expressly or by implication, that the information contained in this document is complete or accurate. Nor does Blue Ocean Equities Limited accept any responsibility for updating any advice, views opinions, or recommendations contained in this document or for correcting any error or omission which may become apparent after the document has been issued.

Except insofar as liability under any statute cannot be excluded. Blue Ocean Equities Pty Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

DISCLOSURE

Blue Ocean Equities Pty Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document, and may from time to time hold interests in the securities referred to in this document.

Blue Ocean Equities Pty Limited and its associates may hold securities in Black Rock Mining Limited at the date of this report and this position may change at any time without notice.

Blue Ocean Equities Pty Limited acted as Co-Manager for the BKT Placement in May 2022.

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

This page has been left blank for notes