

11 September 2023

## Signs MOU with POSCO for Module 2 offtake

### NEED TO KNOW

- POSCO secures Mahenge Module 2 offtake
- POSCO will invest up to US\$40m (capped at a 19.99% stake)

**Black Rock (BKT) and POSCO sign non-binding MOU for Module 2 graphite fines supply:** In exchange for a long-term supply of fines graphite from the Mahenge Graphite Project Module 2, POSCO will invest up to US\$40m (or lift its stake to 19.99%, whichever is lower). Proceeds to be used to build Module 1. Both parties are progressing towards a binding agreement. This MOU enhances the credibility of Mahenge and should help strengthen lender confidence.

**Joins BKT's existing agreements with POSCO for Module 1:** The newly announced non-binding agreement adds to the existing binding agreement for 30ktpa life-of-mine (LOM) fines from Module 1. This binding agreement includes a US\$10m prepayment, offset by product delivery. The partnership is further cemented by an additional MOU for 6ktpa of premium graphite from Module 1.

**About POSCO – why it matters:** POSCO Holdings Inc, a leading South Korean steel conglomerate valued at >US\$20bn, is expanding into the battery materials sector. POSCO aims to increase its anode production from 82ktpa in 2022 to ~370ktpa by 2030 (its 2030 graphite concentrate needs are expected to be ~520ktpa, according to BKT). Mahenge Modules 1 and 2 combined provide less than 12% of this requirement. Given POSCO's growth goals, we believe it will likely pursue more offtake from Mahenge's Modules 3 and 4 to ensure supply.

### Investment Thesis

**High-quality flagship asset; modular approach lowers risk:** Mahenge, with its large graphite mineral resource and second-largest Ore Reserves globally, can produce up to 350ktpa of high-quality graphite concentrate at first-quartile costs. BKT is employing a capital-light, high-returning four-stage approach to developing Mahenge, with expansions beyond Module 1 funded out of cash flow.

**Tier-1 partner POSCO verifies quality of project; POSCO needs BKT:** POSCO is the largest anode producer outside of China and plans to increase its natural graphite anode production from ~40ktpa (2022) to an around 182ktpa (2030). POSCO is a major BKT shareholder, has a binding offtake agreement for fines and an MOU for large flake offtake (both Module 1) and is providing development finance for Module 1. POSCO's deep relationship with BKT underlines the quality of Mahenge and BKT's role in POSCO's long-term plans.

**Graphite prices do not yet reflect likely future shortages:** Battery demand has driven lithium prices up 800% in 3 years, but graphite prices remain relatively stable. Lithium-ion batteries (LIBs) contain 7–10X times more graphite than lithium, but the role of graphite in LIBs is often overlooked. As the battery demand share of the total graphite market grows, we expect to see upward pressure on natural graphite prices.

### Valuation A\$0.43 (Previous A\$0.45)

**Our BKT valuation of A\$0.43, fully diluted,** is based on BKT's flagship Mahenge Project. We apply an 80% probability weighting to account for outstanding project risks (financing, construction, commissioning), and dilution for a A\$200m equity raise to fund BKT's equity contribution to the project.

### Risks

Key risks include inability to access funding, project delays, escalation in capital costs, falls in the graphite price, inability to sell large flake into the high-value markets, and continuity of key persons.

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**BLACK ROCK**  
MINING LIMITED

Black Rock Mining (ASX:BKT) is a mining company focused on graphite projects in Tanzania. The main project is the Mahenge Graphite Project, a world-class deposit of high-quality graphite ore. The company's goal is to become a leading producer of high-grade graphite for use in lithium-ion batteries and other high-value applications.

<https://blackrockmining.com.au/>

Valuation	<b>A\$0.43</b> (prev \$0.45)
Current price	<b>A\$0.088</b>
Market cap	<b>A\$97m</b>
Cash on hand	<b>A\$11.7m</b> (as of 30 June 2023)

### Upcoming Catalysts and Newsflow

Period	
4QCY23	Binding agreement POSCO funding
3Q/4QCY23	Credit-approved term sheets for project debt
4QCY23	Potential for POSCO to exercise its right to a BKT Board Seat
4QCY23	Potential sell-down of a stake in the project to provide funding

### Share Price (performance comparison)



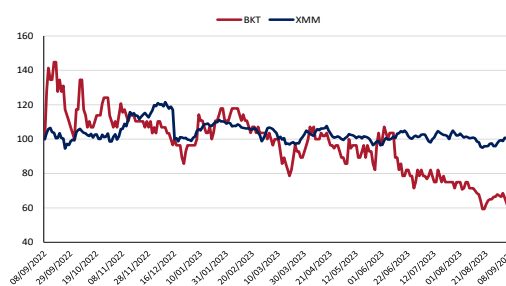
Source: FactSet, MST Access.

## Year End June

## MARKET DATA

Share Price	A\$/sh	0.088
52 Week Low	A\$/sh	0.08
52 Week High	A\$/sh	0.23
Market Cap (A\$m)	A\$m	97
Net Debt / Cash (A\$m)	A\$m	(11)
Enterprise Value (A\$m)	A\$m	86
Shares on Issue	m	1,097
With performance rights	m	1,155
After capital raise	m	2,306

## 12-Month Relative Performance vs S&amp;P/ASX Metals &amp; Mining



## INVESTMENT FUNDAMENTALS

		Jun-21	Jun-22	Jun-23e	Jun-24e	Jun-25e
Reported NPAT	A\$m	(3)	(6)	(4)	(15)	(22)
Underlying NPAT	A\$m	(3)	(6)	(4)	(15)	(22)
EPS Reported (basic)	¢ps	(0.5¢)	(0.5¢)	(0.4¢)	(0.7¢)	(1.0¢)
EPS Underlying (basic)	¢ps	(0.5¢)	(0.5¢)	(0.4¢)	(0.7¢)	(1.0¢)
P/E Reported (basic)	x	n/m	n/m	n/m	n/m	n/m
P/E Underlying (basic)	x	n/m	n/m	n/m	n/m	n/m
Operating Cash Flow / Share	A\$	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)
Price / Operating Cash Flow	x	(36.7)	(20.6)	(10.7)	(12.7)	(7.0)
Free Cash Flow / Share	A\$	(0.00)	(0.01)	(0.02)	(0.03)	(0.10)
Price / Free Cash Flow	x	n/m	n/m	n/m	n/m	n/m
Free Cash Flow Yield	%	-3.8%	-13.5%	-26.5%	-36.2%	-113.3%
Book Value / Share	A\$	0.04	0.06	0.05	0.09	0.08
Price / Book	x	2.25	1.56	1.80	0.94	1.06
NTA / Share	A\$	0.04	0.06	0.05	0.09	0.08
Price / NTA	x	2.25	1.56	1.80	0.94	1.06
Year End Shares	m	849	977	1,097	2,247	2,247
Market Cap (spot)	A\$m	75	86	97	198	198
Net Cash / (Debt)	A\$m	11	26	12	113	(111)
Enterprise Value	A\$m	63	60	85	85	309
EV / EBITDA	x	n/m	n/m	n/m	n/m	n/m
Net Debt / Enterprise Value		(0.1)	(0.3)	(0.1)	(1.3)	1.3

## PRODUCTION AND PRICING

		Jun-21	Jun-22	Jun-23e	Jun-24e	Jun-25e
Ore Mined	kt	-	-	-	-	-
Graphite Concentrate Produced	kt	-	-	-	-	-
Graphite Basket Price (97% grade)	US\$/t	957.0	1,160.3	1,081.5	1,133.0	1,187.5
AUDUSD	:	0.75	0.73	0.68	0.70	0.70

Source: BKT, MST Estimates

Profit & Loss (A\$m)	Jun-21	Jun-22	Jun-23e	Jun-24e	Jun-25e
Revenue	-	-	-	-	-
Expenses	(3)	(6)	(4)	(5)	(5)
<b>EBITDA</b>	<b>(3)</b>	<b>(6)</b>	<b>(4)</b>	<b>(5)</b>	<b>(5)</b>
D&A	(0)	(0)	(0)	(0)	(0)
<b>EBIT</b>	<b>(3)</b>	<b>(6)</b>	<b>(4)</b>	<b>(5)</b>	<b>(5)</b>
Interest	0	0	0	(10)	(27)
Tax	-	-	-	-	10
<b>Underlying NPAT</b>	<b>(3)</b>	<b>(6)</b>	<b>(4)</b>	<b>(15)</b>	<b>(22)</b>
Exceptional					
<b>Reported Profit</b>	<b>(3)</b>	<b>(6)</b>	<b>(4)</b>	<b>(15)</b>	<b>(22)</b>

Balance Sheet (A\$m)	Jun-21	Jun-22	Jun-23e	Jun-24e	Jun-25e
Cash	11	26	12	298	173
Receivables	0	1	-	-	-
Inventory	-	0	-	-	-
PP&E	0	1	1	57	253
Exploration	22	30	42	42	42
Other	-	-	-	-	-
<b>Assets</b>	<b>34</b>	<b>57</b>	<b>55</b>	<b>396</b>	<b>468</b>
Creditors	0	2	-	-	-
Debt	-	-	-	185	285
Other	0	0.73	2	2	(4)
<b>Liabilities</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>186</b>	<b>280</b>
<b>Shareholder's Equity</b>	<b>33</b>	<b>55</b>	<b>54</b>	<b>210</b>	<b>187</b>

Cashflow (A\$m)	Jun-21	Jun-22	Jun-23e	Jun-24e	Jun-25e
<b>Net Cash From Operations</b>	<b>(2)</b>	<b>(4)</b>	<b>(9)</b>	<b>(16)</b>	<b>(28)</b>
Capex	(0)	(0)	-	(56)	(196)
Exploration	(1)	(7)	-	-	-
Other	-	-	-	-	-
<b>Net Cash From Investing</b>	<b>(1)</b>	<b>(7)</b>	<b>(17)</b>	<b>(56)</b>	<b>(196)</b>
Equity	14	26	-	173	-
Borrowings	-	-	-	185	100
Dividend	-	-	-	-	-
<b>Net Cash From Financing</b>	<b>14</b>	<b>26</b>	<b>11</b>	<b>357</b>	<b>100</b>
Effects of FX	(0)	0	0	-	-
<b>Net Increase / (Decrease) in Cash</b>	<b>11</b>	<b>15</b>	<b>(15)</b>	<b>286</b>	<b>(124)</b>

# MOU with POSCO for Mahenge Module 2

The partnership between BKT and POSCO underscores the viability of the Mahenge Graphite Project and reduces BKT's risk. POSCO is BKT's major shareholder with 11.5% of the issued capital in BKT, and the two parties have signed several offtake agreements. POSCO's new commitment is likely to further boost lender confidence in the project.

## **New agreement: solidifying a growing BKT–POSCO alliance**

### **Agreement so far**

BKT has entered into a non-binding Memorandum of Understanding (MOU) with its strategic partner, POSCO International Corporation. This MOU outlines a long-term supply of fines (-100 material) graphite from Module 2, complementing the current binding agreement for ~30ktpa LOM fines from Module 1 (see below for more on existing agreements between BKT and POSCO).

In exchange for this commitment, POSCO will invest up to US\$40m or take a stake of up to 19.99% in BKT, whichever is lower. Currently, both parties are actively working to convert the non-binding MOU into a binding agreement. The proceeds of this investment are to be used to build Module 1.

### **Potential financial structure**

Discussions to finalise the POSCO investment are ongoing. The most likely timing for completion would be to correspond with the debt and equity funding of Stage 1 of the project.

Based on an assumed funding need of ~US\$250m, and debt of ~US\$110m and POSCO prepay of US\$10m, the equity required to be raised would be approximately US\$130m (A\$200m). Based on our estimates raising share price of A\$0.15 (we expect share price appreciation post debt announcements and POSCO investment binding agreement), for POSCO to raise its equity share of BKT to 19.99%, it would need to contribute ~A\$52m (US\$34m). This would mean approximately A\$142m to be raised from the market.

### **Converting to binding agreement would boost project development plans**

The addition of the MOU further confirms the interest POSCO has in the project. Converting the MOU into a binding agreement would be a key catalyst for project development.

## **Existing agreements: key relationship for both parties – POSCO is important to BKT, but BKT is very important to POSCO**

The most recently announced MOU reinforces the collaboration between the two companies and improves BKT's debt financing opportunities. We note that POSCO and BKT already have several agreements in place.

### **Binding offtake agreement for fines from Module 1**

BKT's binding agreement with POSCO encompasses the supply of the entire (25–30ktpa) planned fines (-#100) production from Mahenge's Module 1.

### **MOU for large flake Module 1**

BKT holds a non-binding MOU with POSCO for a 6ktpa supply of large flake graphite concentrate from Mahenge Module 1, accounting for an extra ~7% of projected production.

### **Development finance for Module 1**

POSCO is providing development finance for Module 1. This includes:

- a US\$10m prepayment: The contract stipulates a US\$10m prepayment, which will be offset through product delivery, and guarantees a 100% LOM offtake for graphite fines from Module 1
- an MOU for POSCO to invest US\$40m or take a 19.99% stake in BKT, whichever is lower.

### **Other opportunities**

POSCO and BKT have signed an MOU to explore other opportunities to develop an Inflation Reduction Act compliant supply chain.

## Who is POSCO, and why does it matter?

POSCO Holdings Inc, a leading South Korean steel conglomerate with a market capitalisation exceeding US\$20bn, is making substantial strides in the battery materials sector. The conglomerate's 60%-owned battery business, previously known as POSCO Chemical and now rebranded as POSCO Future M Co., Ltd, is a major player in anode production. The conglomerate's primary trading arm, POSCO International Corporation, is 70.7% owned by POSCO Holdings Inc and plays a crucial role in securing raw materials for the group.

In 2022, POSCO was the largest anode producer outside of China. **POSCO plans to spend US\$93b on growth projects by 2030, with 46% of its planned 2023–2025 capex spend on LIB materials.**<sup>1</sup>

### POSCO plans major growth in its graphite anode production...

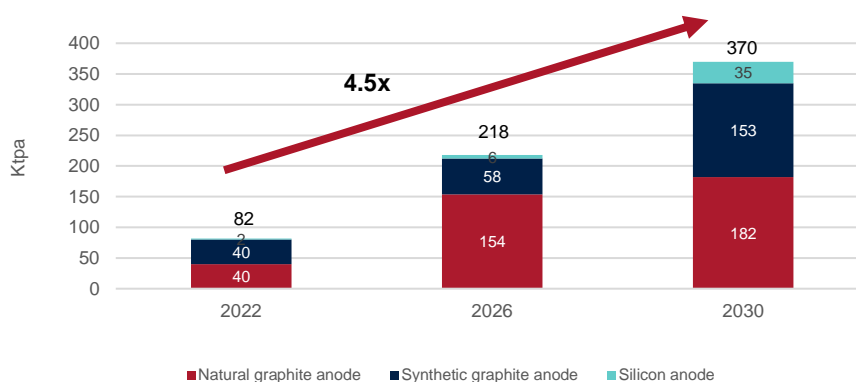
POSCO plans to increase its natural graphite anode production from ~40ktpa in 2022 to an estimated 182ktpa by 2030 (Figure 1). To support this goal, the company has an offtake agreement with BKT for 30ktpa of -#100 mesh material. As far as we know, POSCO has no other graphite concentrate agreements, and no other developer has passed its strict qualification process.

### ...and so it needs what BKT is selling

Figure 2 shows POSCO's graphite concentrate needs for its growth, using the standard industry conversion rate to Spherical Graphite (SPG) of 35%. BKT's Mahenge Module 1 offers ~30ktpa of concentrate, which is only ~6% of 2030's requirements. Even with Module 2's contribution, this meets less than 12% of POSCO's total requirements.

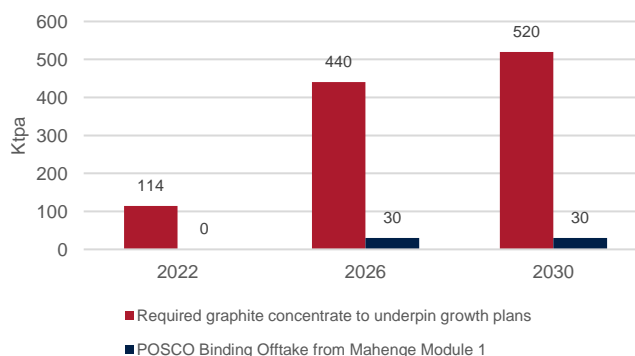
Given POSCO's ambitious growth plans, we believe it would likely be interested in securing additional offtake from Mahenge's Module 3 and 4 to ensure a stable and reliable supply chain.

**Figure 1: POSCO's growth plans for its anode business**



Source: BKT.

**Figure 2: POSCO's graphite concentrate requirements**



Source: BKT.

<sup>1</sup> Source: <https://www.reuters.com/markets/commodities/south-koreas-posco-plans-93-bln-investment-by-2030-2023-07-03> (3 July 2023)

# Valuation: Risked NPV of A\$0.43/Share (Previous A\$0.45)

Our valuation for BKT is A\$0.43 per share on a fully diluted basis. This represents substantial upside potential of 420% from the current share price.

In our view, the market is undervaluing the high-quality, shovel-ready Mahenge deposit, for which there are offtake agreements and upcoming catalysts. Graphite's strong structural tailwinds are currently underappreciated, and we anticipate tight medium-term fundamentals in the market, with potential for growth similar to lithium.

## Valuation summary

Figure 3 presents a summary of our valuation, which uses a discount rate of 12% and a probability risk weighting of 80%. We value the net assets at A\$859m (risked) compared to the current market value of A\$97m.

**Figure 3: Base-case valuation summary**

Black Rock Mining Valuation					Previous Valuation
	Discount rate	Risk weighting	AUD\$m	AUD\$/sh	AUD\$/sh
Mahenge	12.0%	80.0%	859	0.37	0.41
<b>Total operating assets</b>			<b>859</b>	<b>0.37</b>	<b>0.41</b>
Corporate/SG&A	12.0%		(43)	(0.02)	(0.02)
Net cash/(debt)			182	0.08	0.06
<b>Net Asset Value</b>			<b>998</b>	<b>0.43</b>	<b>0.45</b>
Current Share price				0.08	0.08
Upside				<b>420%</b>	<b>442%</b>

Source: MST estimates.

We have reviewed our valuation and updated some key components.

- Increased capex assumption:** We have increased our Stage 1 capex estimate to US\$250m from US\$200m. Current global inflationary pressures are particularly acute in the mining sector. We include the cost of the US\$33m power line (which is repaid via a rebate from the power provider). We are confident that BKT can optimise the capital spend, but consider it conservative to take into consideration the global pricing pressures.
- Delayed Module 1 timing assumption:** We have pushed back our assumed timing for the Phase 1 commencement of production to FY2026 from FY2025. The debt funding process has taken longer than we first anticipated, and the mining sector is suffering from delays in supply of equipment. We expect the process of converting the most recent MOU from POSCO to a binding agreement to take about 3 months. We once again have confidence that BKT is capable of delivering the project in a timely manner, and we believe that it may deliver ahead of our conservative estimates.
- Reduced risk weighting:** Importantly, we have increased our probability rating (in other words, decreased our risk factor) to 80% from 70%. We see the recent MOU with POSCO as a major step towards finalising funding and offtake for the project. It has also increased our confidence that POSCO will require additional production from additional modules over time to support its growing battery business.

## Key assumptions

Key assumptions are in Figure 4. Given the project's location in Africa, we applied a 12% nominal discount rate, and we assume A\$200m in initial development capital. Our graphite basket price (average for initial 10 years) is US\$1,458/t, offering upside if prices exceed our forecasts.

**Figure 4: DFS assumptions underpinning our base-case valuation**

Assumptions	MST
<b><u>PROJECT ASSUMPTIONS</u></b>	
Project Ownership (%)	84%
Strip Ratio (waste : ore)	0.8
Ore Reserve Grade (% TGC)	8.2%
Concentrate Grade (% TGC )	97.3%
Average Recovery (%)	92.8%
Average Material Mined (ktpa)	7,234
Average Ore Mined (ktpa)	4,019
Mine Life (years)	26
Development Capex module 1 (US\$m)	250
Debt to equity (inc. prepayments)	~50:50
<b><u>COST &amp; FINANCING ASSUMPTIONS</u></b>	
Discount Rate (%)	12%
Inflation Rate (%)	3%
Debt interest rate	12%
Share price for Equity raising (A\$/share)	0.15
<b><u>PRICING &amp; EXCHANGE RATE ASSUMPTIONS</u></b>	
AUDUSD	0.71
Graphite Price (Real) (US\$/t)	1,238
Basket Price Price (US\$/t) - Average first 10 years	1,458
Royalty Rate (%)	3%
Corporate Tax Rate (%)	30%

Source: MST estimates.

# Investment Thesis and Catalysts

## Key pillars of our investment thesis

### High quality asset – and ready to go

**Shovel-ready project at world-class deposit:** The Mahenge Project is a Tier-1, shovel-ready graphite project located 450km by road from Tanzania's largest port, Dar es Salaam. BKT holds an 84% stake in the project through a joint venture company, Faru Graphite Corporation (Faru), while the Tanzanian Government owns the remaining 16% (free carry).

**Mahenge geologically and geographically blessed:** The Mahenge Project boasts one of the world's largest graphite mineral resources, measuring 213Mt at 7.8% total graphitic carbon (TGC). It holds the second-largest Ore Reserves worldwide, with 70mt at 8.5% TGC. These Ore Reserves support a mining operation that can produce up to 350kt/year of graphite.

The Mahenge deposit's high-quality graphite ore has low impurities and large flake size, and requires minimal processing in order to produce a very high-grade concentrate, differentiating it from other graphite deposits. Of the total graphite to be produced at Mahenge, ~60-70% will be well-suited for high-value end-value products that require large natural flake size, and ~30-40% will be highly suitable for the rapidly growing battery anode market. It is worth noting that all of the product can be directed towards the battery anode market if deemed value accretive.

### Strength at the company level, low operating cost and financing progressing

**First-quartile costs:** The Mahenge Project has first-quartile cost position on the global cost curve, driven by access to low-cost hydro-dominated grid power. BKT's energy mix consists of 60–70% hydro and 30–40% gas, a sustainable mix that provides a competitive edge in terms of the company's cost structure and environmental position.

**Benefitting from experienced management:** BKT's management team is made up of individuals with extensive experience, including Daniel Pantany (GM Engineering & Technical), who worked on Syrah's Balama project from Front-end Engineering Design through to commissioning and whose insights have been incorporated into the design of Mahenge. The company has also hired David Griffiths, the former General Manager of Syrah's Balama project.

**Financing is moving quickly with discussions underway:** BKT is seeking ~US\$250m to fund the Mahenge Project and targeting debt of US\$110m plus the US\$10m POSCO prepay. The company is exploring various financing options and undertaking discussions with potential lenders, who conducted site visits to the project in February 2023. BKT expects to receive credit-approved term sheets soon. We believe the approval of the 26-year Special Mining License in September 2022 and updated capital expenditure estimates put BKT in a solid position to advance financing discussions.

### Graphite growing in importance – with natural graphite to play a larger role

**Macro outlook – graphite poised to be lithium 2.0:** While the importance of lithium-ion batteries (LIBs) is widely understood, the crucial role that graphite plays in the anode for all types of LIBs is often overlooked, with LIBs requiring 7–10x more graphite than lithium.

Due to supply shortages and rapid acceleration of EV demand, lithium prices have risen significantly (+800%) in recent years. Ongoing deficits are predicted in the graphite market in the near future; as an example, Benchmark Mineral Intelligence forecasts deficits to exceed the entire natural graphite market (1.2mt in 2022) in 7 years.

**BKT's position is set to strengthen as sustainability requirements tighten:** As Western nations begin implementing sustainability requirements, the dominance of synthetic graphite could start to lessen. Already, Europe has instituted battery sustainability standards, mandating the disclosure of each component's carbon footprint. These measures are scheduled to take effect from 2024, with a more inclusive framework coming into play by mid-2025 (see European Commission commentary [here](#)). This increased visibility into synthetic graphite's carbon footprint could provide a boost to BKT's natural graphite products. Over time, as these sustainability standards potentially become widespread in the US and other countries, it could further enhance BKT's standing.

## Near-term catalysts

- **Credit-approved term sheets from lenders** (3Q/4QCY23)
- **Binding funding agreement with POSCO** for investment of US\$40m or an increase in POSCO's BKT stake to 19.99% (4QCY23)
- **Potential sell-down of a stake in the project** to fund development and reduce dilution (subject to attractive pricing) (4QCY23)
- **POSCO could exercise its right to a BKT board seat** (4QCY23). POSCO retains this right as long as it maintains a stake of at least 10% in BKT. If POSCO were to take a seat on the board, it would be a further indication of its long-term commitment to the success of the project, and we would expect this to be well received by the market.

## Risks to share price and valuation

### Company-and project-specific risks

- **Insufficient access to funding:** the availability of funding for the project is not guaranteed. A lack of sufficient funding could have a negative impact on the stock.
- **Delays to development:** any delays in moving into construction, post-funding, would be a negative for the stock.
- **Inability to sell large flakes into high-value markets:** ~60% of BKT's basket consists of large flake graphite, which can be sold in the high-end market. If there is a lack of demand for this product, BKT will have to crush and grind the graphite into a finer form to sell into the fines market, resulting in reduced revenue and increased operational costs.
- **Key person dependence:** individuals, including the CEO, may have relationships and experience critical to advancing the Mahenge Project. The loss of such personnel may significantly compromise BKT's ability to advance the project.
- **Cost inflation:** inflation is becoming a global theme and is particularly concerning in the mining industry. If operational or capital costs increase without a corresponding increase in the commodity price, the project's margins will be reduced which could impact its economics and viability.

### Macro risks

- **Graphite price** – this is the key valuation sensitivity
- **Foreign exchange rates**
- **Increasing interest rates** and the potential impact on the cost of debt finance
- **Technology** – LIBs becoming redundant due to substitution

### Country-specific risks

The Mahenge Project, operating in Tanzania, may face several country-specific risks. For example, changes in government policies or regulations could significantly affect the project's success.

- **Political instability:** any changes to government policies or leadership could impact the Mahenge project, as such changes may cause adverse changes in laws, taxes, or other regulations that could increase costs or decrease revenues.
- **Regulatory environment:** any adverse changes in regulations or laws could potentially impact the project's success.



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