

Black Rock Mining Ltd (BKT)

Rating: Buy | Risk: High | Price Target: \$0.46

2 November 2023

First part of Project debt funding received

Key Information

Current Price (\$ps)	0.13
12m Target Price (\$ps)	0.46
52 Week Range (\$ps)	0.08 - 0.18
Target Price Upside (%)	268.0%
TSR (%)	268.0%
Reporting Currency	AUD
Sector	Materials
Avg Daily Volume (m)	1.0
ASX 200 Weight (%)	#VALUE!

Fundamentals

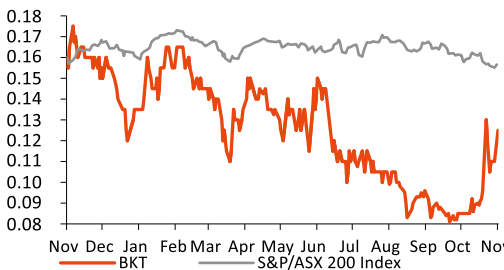
YE 20 Jun (AUD)	FY23A	FY24E	FY25E	FY26E
Sales (\$m)	0	0	0	71
NPAT (\$m)	(9)	(4)	(11)	14
EPS (cps)	(0.9)	(0.4)	(1.0)	1.2
EPS Growth (%)	(38.4%)	56.5%	nm	222.3%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	100%	100%	100%	100%

Ratios

YE 20 Jun	FY23A	FY24E	FY25E	FY26E
P/E (x)	(12.1)	(31.5)	(12.9)	10.5
EV/EBITDA (x)	n/a	n/a	n/a	n/a
Div Yield (%)	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

Price Performance

YE 20 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	49.9%	36.2%	33.3%	(19.8%)
Absolute (%)	47.1%	30.2%	26.3%	(21.9%)
Benchmark (%)	(2.8%)	(6.0%)	(7.0%)	(2.1%)



Price performance indexed to 100

Source: FactSet

Major Shareholders

POSCO Holdings	11.5%
Copulos Group	11.0%

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Event

Black Rock Mining has received approval from The Development Bank of Southern Africa for project debt of up to US\$59.6m which will form part of the debt package for Mahenge.

Highlights

- Black Rock Mining is developing the 84% owned Mahenge Graphite Project in Tanzania. Mahenge is favourably positioned to provide low carbon intensity high quality premium graphite feedstock to an emerging supply chain between POSCO and the rest of the world.
- The Development Bank of Southern Africa has approved a loan of up to US\$59.6m for Mahenge, which is expected to form part of the overall Project debt funding. Key terms have not been released but we expect these to be in line with typical DFI loans that offer long tenure, favourably priced fixed rate loans. We currently assume an average interest rate of 10% across Mahenge's four modules.
- Additional DFI loans are still being considered and several Tanzanian commercial banks are progressing due diligence. Discussions are ongoing and we expect a favourable outcome by the end of the year.
- Black Rock is ultimately targeting up to 50% debt funding for Mahenge to reach production with the balance in equity. POSCO has entered into a MOU for potential cornerstone equity of up to US\$40m. The project is shovel-ready and BKT continues to target production in 2025.
- China recently announced export controls over natural graphite and its products, including uncoated spherical graphite, coated spherical graphite and expandable graphite, from 1 December 2023.
- The reasons behind the controls are clear. As we pointed out in our Graphite Sector Initiation ("*The Forgotten Battery Metal*") in May this year, China's dominance of the global graphitic supply chain, particularly in downstream battery anode manufacturing capacity at over 90%, poses a strategic challenge to the rest of the world that has yet to be fully addressed.
- This is despite initiatives such as the Biden administration's mammoth US\$600bn Inflation Reduction Act, the EU's Critical Raw Materials Act and even an extra \$2bn in funding for the Critical Minerals Facility announced in Australia last week.
- The implementation of graphite export controls underscores the growing risk of resource nationalism amidst the energy transition and closely follows China's move to restrict exports of gallium and germanium in May this year.
- We forecast graphite prices to move higher from here, depending on how stringent the controls prove to be.
- POSCO, the world's largest anode chemical producer outside China, has an aggressive growth strategy to invest US\$93bn between now and 2030, almost half of that in the lithium-ion battery chain.
- Following the export controls, it is extremely difficult to see where the anode pre-cursor product will come from to meet POSCO's targets.
- POSCO needs four Mahenge-sized projects. And given Mahenge is the fourth largest graphite resource in the world, we continue to expect POSCO to comprise a large amount of the funding solution to hasten to bring Mahenge into production.

Recommendation

We maintain our Buy recommendation and \$0.46 price target. Medium term, the thesis remains intact: forecast graphite shortages and a lack of new supply means medium-term graphite prices must move up to incentivise new production.

Black Rock Mining Ltd

Materials Materials

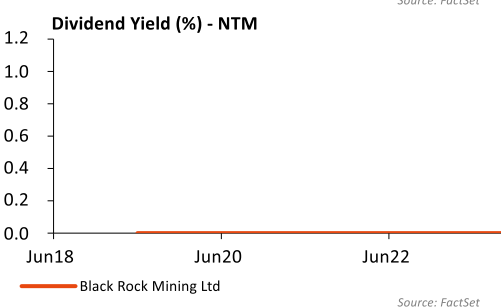
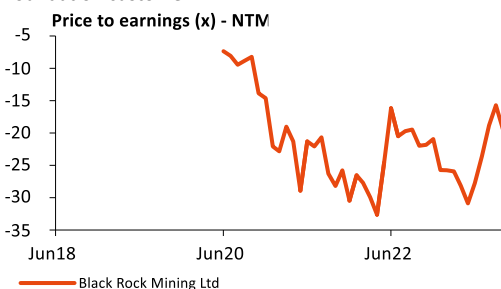
FactSet: BKT-AU / Bloomberg: BKT AU

Key Items

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.13
Target Price (\$ps)	0.46
52 Week Range (\$ps)	0.08 - 0.18
TSR (%)	268.0%

Company Description

Blackrock Mining is developing the Mahenge Graphite Project in Tanzania. Mahenge is a world-class deposit in terms of size and grade. Blackrock aims to become a leading producer of graphite for lithium-ion batteries. Posco is a foundation customer.



Financial Year End: 20 June

Investment Summary (AUD)	FY22A	FY23A	FY24E	FY25E	FY26E
EPS (Reported) (cps)	(0.7)	(0.9)	(0.4)	(1.0)	1.2
EPS (Underlying) (cps)	(0.7)	(0.9)	(0.4)	(1.0)	1.2
EPS (Underlying) Growth (%)	(0.2%)	(38.4%)	56.5%	nm	222.3%
PE (Underlying) (x)	(22.1)	(12.1)	(31.5)	(12.9)	10.5
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	100%	100%	100%	100%	100%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Profit and Loss (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	0	0	0	0	71
Net Interest	0	0	(6)	(16)	(22)
Pretax Profit	(6)	(9)	(6)	(16)	20
Tax	0	0	2	5	(6)
Tax Rate (%)	0.0%	0.0%	(30.0%)	(30.0%)	(30.0%)
NPAT Underlying	(6)	(9)	(4)	(11)	14
Significant Items	0	0	0	0	0
NPAT Reported	(6)	(9)	(4)	(11)	14
Cashflow (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Balance Sheet (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Total Assets	57	61	303	409	435
Short Term Debt	0	0	0	0	0
Long Term Debt	0	0	120	240	240
Total Liabilities	2	4	120	237	249
Ratios	FY22A	FY23A	FY24E	FY25E	FY26E
ROE (%)	(13.6%)	(16.6%)	(3.7%)	(6.3%)	7.7%

Key risks

- The graphite price is opaque, volatile and driven as much by China-centric demand as fundamental supply and demand. As such, the price of graphite is relatively difficult to forecast and the actual price may differ substantially from our forecasts.
- Availability of funding is not guaranteed and a lack of sufficient funding is a significant risk.
- Current battery technology is such that all lithium-ion batteries use substantial amounts of graphite. However, risk remains in the long-term should next generation batteries use alternative chemistries such as silicon anode or solid-state lithium batteries.
- Key person risk. If senior management depart the company then it could delay projects or exacerbate operational risks.

Core drivers and catalyst

- The next catalyst is the delivery of a complex funding package for Mahenge that involves project debt, equity and confirmation of Posco's involvement as strategic partner.
- Rightly or wrongly, Syrah Resources' Balama deposit is seen as the bellweather for the entire graphite sector. A decision to restart Balama would be positive for all ASX-listed graphite companies.
- Black Rock's key differentiation is its upstream and customer-focussed operating model. The geology of Mahenge is low in deleterious impurities and has favourable metallurgy which allows Black Rock to produce very high purity graphite concentrates up to 99% using simple low-cost conventional flotation
- Black Rock has chosen to focus on producing graphite concentrate rather than running a simultaneous downstream operation. In so doing, BKT also avoids competing with its key customer.

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

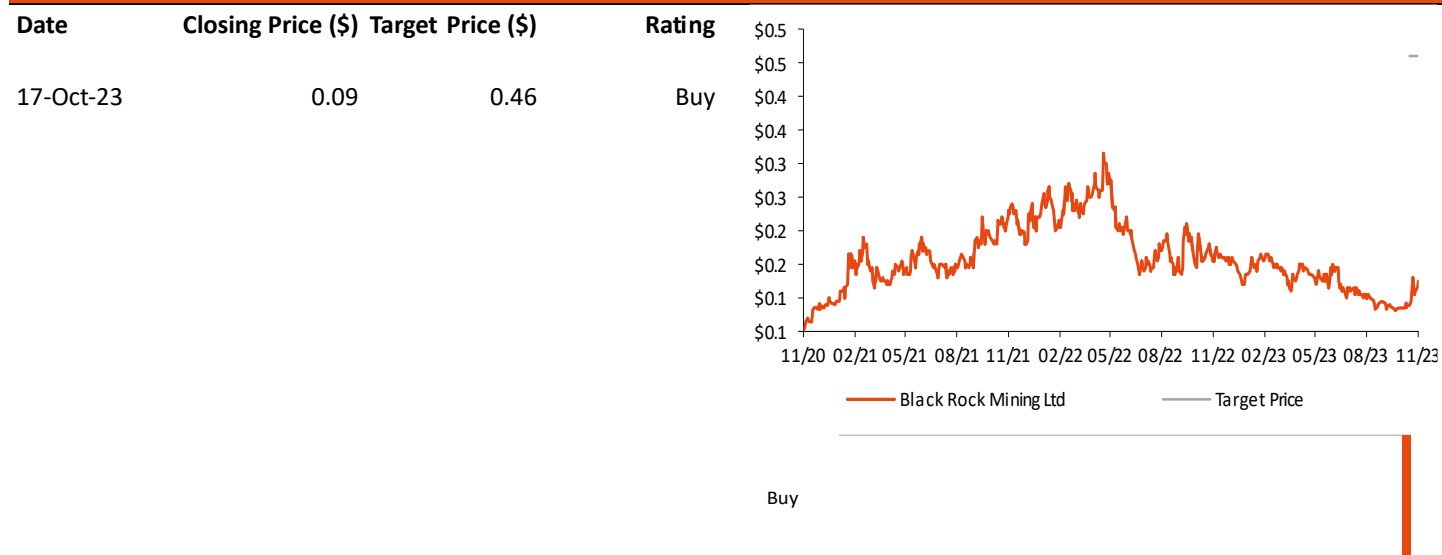
High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

RISK STATEMENT: Where a company is designated as ‘High’ risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	76	96%
Hold	2	3%
Sell	1	1%

History of Investment Rating and Target Price - Black Rock Mining Ltd



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