

Black Iron

Significant de-risking step achieved as Green Steel revolution gathers pace

Black Iron (BKI) announced an agreement for offtake rights on the initial 4Mtpa Phase 1 production from the Shymanivske project and a US\$75m finance facility for Project construction from Cargill, a leading iron ore and steel trading company. Under the terms, BKI will receive 100% of the 65% Fe fines benchmark and share a portion of the incremental sale price of its 68% Fe, low-impurity product. We view this as a significant de-risking step towards the capital requirements of the Phase 1 Project and a testament to the shift towards green steel and emissions reduction. The innovative structure of the deal – whereby Cargill is heavily incentivised to maximise its selling price, rather than taking an agreed discount to the benchmark – should in turn drive better realised prices for Black Iron and is a positive endorsement of the quality of Shymanivske’s product. We initially maintain our C\$1.56/sh target price as Black Iron and Cargill begin work on a definitive binding offtake but see scope to raise our 0.5x valuation multiple once the agreement is finalised.

Major step towards Phase 1 construction & reduction in future equity dilution
BKI has achieved an important step on the path to production in 2023 by agreeing offtake terms for an initial 10-year period and a US\$75m financing facility. The facility represents approx. 17% of the PEA estimated US\$452m Phase 1 capital costs and a definitive offtake agreement should lay the foundations for further financing arrangements. It is important to note that the proposed facility is expected to be junior in the capital structure to bank debt, and therefore will not cannibalise any senior lending capacity. BKI expects to fund 60% of Phase 1 with bank debt (US\$260 - 300m expressions of interest received), high-yield bonds and Export Credit Agency facilities, while the company has a signed term sheet for a US\$100m royalty deal which is undergoing third-party due diligence. The company is also selecting and negotiating binding terms with its EPC contractor who proposes to invest US\$65m in the project, further limiting the need for additional equity. These steps will be followed by an updated Feasibility Study in early Q3’21 and achievement of full financing during H2’21. The transfer of government land required for the plant, tailings and waste storage is expected by Q3, and all required construction permits by the beginning of 2022.

Steel emission concerns coming to the fore; Black Iron holds the answer
Shymanivske is expected to produce a high-grade (68% Fe), low-impurity, magnetite pellet-feed concentrate, potentially producing 30% less CO2 relative to 62% fines, even before considering potential Direct Reduction pellet uses. The value of this green product has been recognised through a profit-sharing mechanism on the 3% higher iron content and low impurity magnetite product compared to the 65% benchmark fines. Cargill’s global network and experience should prove invaluable in the technical marketing and value realisation of high-grade, clean iron ore. The nature of the agreement will also align the interests of both parties and produce a strong interdependent relationship. With China continuing its crackdown on steel emissions, BKI’s planned product, in the top 4% of global production by iron content, is uniquely placed and timed to meet this emerging market.

Iron ore at all time high prices

Iron ore is continuing its remarkable run and futures in Singapore breached US\$226/t for the first time on the back of a rapidly recovering Chinese economy and a global focus on infrastructure spending. Chinese steel production was up 19% in March alone and the market could enjoy further upside with inflation worries abound and the rise of Chinese/Australian tensions potentially leading to tariffs.

Valuation – C\$1.56/sh DCF-based target using 0.5x NPV12%

We estimate BKI’s product could achieve a US\$272/t FOB price if it were in operation today. While a normalisation in the iron ore market is inevitable, we believe our FOB price assumption of US\$100/t is adequately conservative for the purposes of our valuation and leaves room for upside. Using a 12% WACC (vs 10% used in the PEA) we derive a DCF for Shymanivske of US\$846m, to which we apply a 0.5x target P/NPV multiple to account for the project’s PEA-level estimates and unfunded status. Adjusting for cash, G&A and options/warrants, we derive a Dec’21E target of C\$1.56/share.

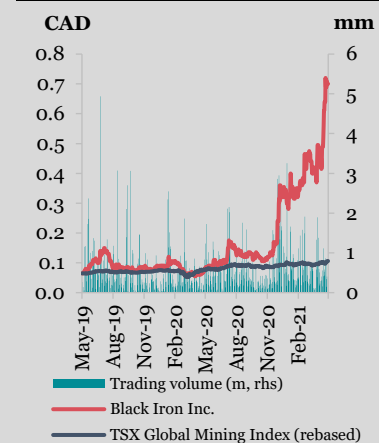
GICS Sector	Materials
Ticker	TSX-V: BKI
Market cap (C\$m, 07 May 21)	181
Share price (C\$, 07 May 21)	0.70
Target price (C\$, 31 Dec 21)	1.56

123%

Upside from current share price to C\$1.56/sh target price

US\$864m

NPV12% of Shymanivske project on H&P estimates



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Valuation – C\$1.56/sh target

H&P risked SOTP derivation for Black Iron			Value	Target Multiple	Target Value
Shymanivske	C\$m		1,057.8	0.5	528.9
Working capital + Cash	C\$m		2.1		2.1
Total Debt	C\$m		(0.5)		(0.5)
Corporate G&A (after-tax)	C\$m		(9.0)		(9.0)
Total			1,050		522
Shares Out - undiluted	m				260
NPV / Target Price per share - undiluted	C\$ cents				2.01
Warrants & Options (cash from)	C\$m				13.2
Shares issued if options exercised	m				82
Total shares out (If all options exercised)	m				342
NPV / Target Price per share - diluted	C\$ cents				1.56
Current share price (07/05/2021)	C\$ cents				0.70
Upside/downside from current share price					123%

Source: Company Reports, H&P estimates

Iron price and premium

		62% Fe Price (US\$/t)						
		49	56	63	70	77	84	91
Grade Premium (US\$/t)	27	0.14	0.44	0.75	1.06	1.37	1.68	1.99
	30	0.30	0.61	0.92	1.23	1.54	1.84	2.15
	34	0.47	0.78	1.09	1.40	1.70	2.01	2.32
	38	0.64	0.95	1.25	<u>1.56</u>	1.87	2.18	2.49
	42	0.81	1.11	1.42	1.73	2.04	2.35	2.65
	46	0.97	1.28	1.59	1.90	2.21	2.51	2.82
	49	1.14	1.45	1.76	2.06	2.37	2.68	2.99

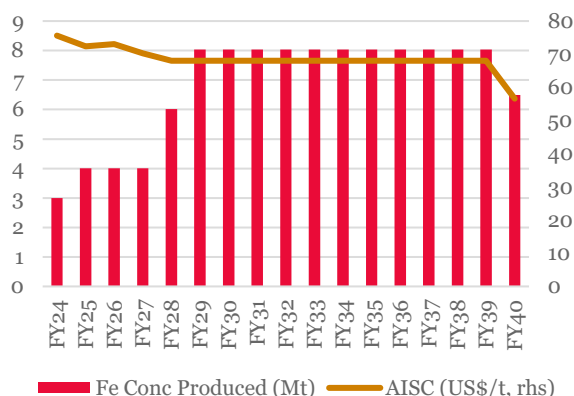
Capex multiplier for Phase 1 and Phase 2

		Phase 1 Capex						
		0.7	0.8	0.9	1	1.1	1.2	1.3
Phase 2 Capex	0.7	1.86	1.79	1.72	1.66	1.59	1.52	1.46
	0.8	1.82	1.76	1.69	1.63	1.56	1.49	1.43
	0.9	1.79	1.73	1.66	1.59	1.53	1.46	1.39
	1	1.76	1.70	1.63	<u>1.56</u>	1.50	1.43	1.36
	1.1	1.73	1.66	1.60	1.53	1.46	1.40	1.33
	1.2	1.70	1.63	1.57	1.50	1.43	1.37	1.30
	1.3	1.67	1.60	1.54	1.47	1.40	1.34	1.27

Source: Company reports, H&P estimates

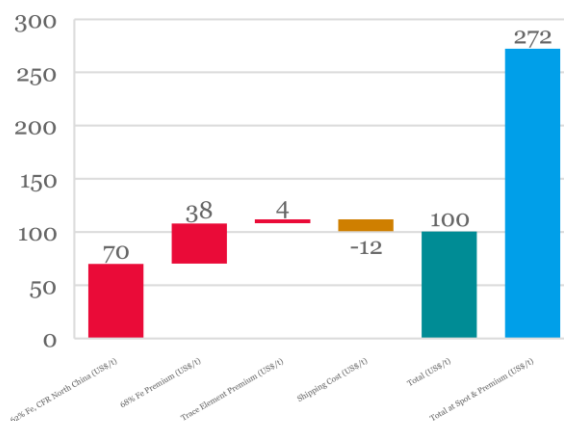
Key Charts

Iron concentrate produced (Mt) and AISC (US\$/t)



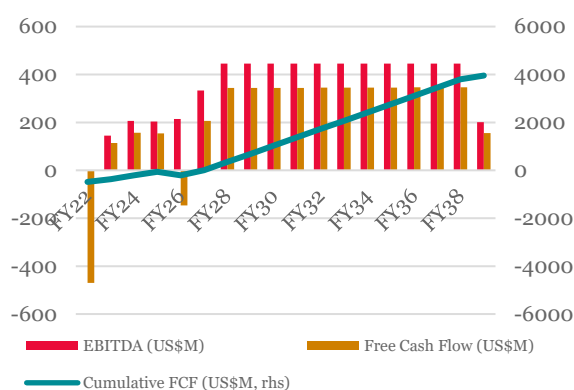
Source: Company reports, H&P estimates

Realised selling price (US\$100/t) vs spot price for premia



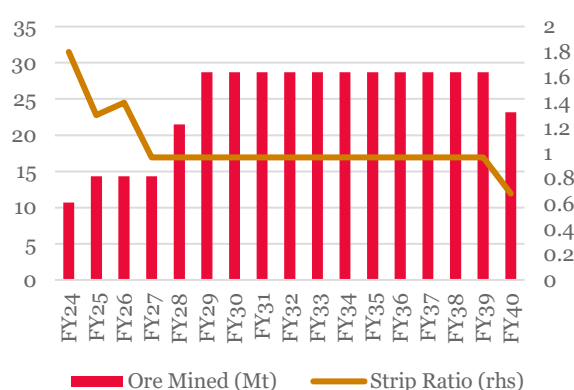
Source: Company reports, H&P estimates

EBITDA, FCF and cumulative FCF (US\$m)



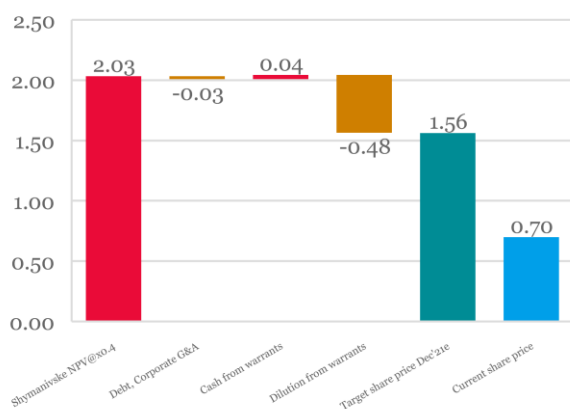
Source: Company reports, H&P estimates

Shymanivske ore mined (Mt) and strip ratio



Source: Company reports, H&P estimates

SOTP Valuation (C\$/sh)



Source: Capital IQ, H&P estimates

SOTP sensitivity to key project variables (C\$/sh)



Source: H&P estimates

Financial Statements Summary

Income statement						
Year end June		2020A	2021E	2022E	2023E	2024E
Revenue	US\$m	-	-	-	-	301.0
Cost of Sales	US\$m	-	-	-	-	(155.8)
Depreciation	US\$m	(0.0)	-	-	(1.1)	(41.8)
Other	US\$m	-	-	-	-	-
Gross profit	US\$m	(0.0)	-	-	(1.1)	103.4
Administrative Expenses	US\$m	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Exploration and Evaluation expenses	US\$m	(0.7)	(0.7)	(0.7)	-	-
Profit / (Loss) from Operations	US\$m	(2.6)	(2.7)	(2.7)	(3.1)	101.4
Interest Expense	US\$m	(0.3)	(21.0)	(22.5)	(24.0)	(25.7)
Finance Income	US\$m	0.0	0.0	7.0	6.8	-
Pre-tax profit	US\$m	(9.1)	(23.7)	(18.1)	(20.3)	75.6
Tax Credit / (Paid)	US\$m	-	-	-	-	18.6
Profit After Tax	US\$m	(9.1)	(23.7)	(18.1)	(20.3)	94.2
FX Gains / Losses	US\$m	-	-	-	-	-
Owners Net Profit	US\$m	(9.1)	(23.7)	(18.1)	(20.3)	94.2
EBITDA	US\$m	(2.6)	(2.7)	(2.7)	(2.0)	143.2

Cash flow statement						
Year end June		2020A	2021E	2022E	2023E	2024E
Operating Profit	US\$m	(9.1)	(23.7)	(18.1)	(20.3)	94.2
Depreciation	US\$m	0.0	-	-	1.1	41.8
Working Capital Change	US\$m	0.3	(0.5)	-	-	(11.9)
CFO	US\$m	(1.7)	(3.2)	(2.7)	(2.0)	149.8
Purchase of PPE	US\$m	(0.0)	-	(12.5)	(470.0)	(12.5)
CFI	US\$m	(0.0)	-	(12.5)	(470.0)	(12.5)
Net Borrowings	US\$m	-	300.0	-	-	-
New Equity Issued	US\$m	1.3	70.0	-	-	-
CFF	US\$m	2.3	470.0	-	-	(136.0)
Net Change in Cash	US\$m	0.6	466.8	(15.2)	(472.0)	1.4
Beginning Cash	US\$m	1.0	1.7	468.4	453.2	(18.8)
Ending Cash	US\$m	1.7	468.4	453.2	(18.8)	(12.9)

Balance sheet						
Year end June		2020A	2021E	2022E	2023E	2024E
Cash	US\$m	1.7	468.4	453.2	(18.8)	(12.9)
Receivables	US\$m	0.1	-	-	-	24.7
Inventory	US\$m	-	-	-	-	-
Current Assets	US\$m	1.7	468.4	453.2	(18.8)	24.7
PPE	US\$m	0.0	0.0	12.5	481.4	452.1
Fixed Assets	US\$m	0.0	0.0	12.5	481.5	452.1
Payables	US\$m	0.6	-	-	-	25.6
Short Term Debt	US\$m	-	-	-	110.3	102.9
Current Liabilities	US\$m	0.6	-	-	110.3	128.5
Long Term Debt	US\$m	-	321.0	343.5	257.3	154.4
Non Current Liabilities	US\$m	7.5	427.9	450.4	474.4	389.8
Total Equity	US\$m	(5.7)	40.6	15.4	(11.7)	82.5

Source: H&P estimates, Company report

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