

BlueJay Mining

Important milestones in sight, despite challenges in 2020; maintaining 20p price target

We retain our 20p/sh target on BlueJay (JAY), but move the valuation date back by a year to Dec'21. Covid-19 restrictions experienced in 2020 have been particularly impactful, as the operational window in Greenland is seasonal, meaning BlueJay will have been largely restricted to desk-based activities until Q2'21. However, JAY's flagship Dundas Ilmenite Project still has significant resource growth potential and, we believe, enjoys a more straightforward path to production than many of its junior mineral sands peers. We see upside to the shares as milestones are reached: by year end, BlueJay will potentially have announced the receipt of a mining licence, confirmation of an offtake agreement and an optimisation of the PFS economics including improved capital and operating costs. The Company is also preparing to list its shares on the OTCQB market to tap into demand from prospective investors in the US. As well as Dundas, JAY continues to progress its wider portfolio of base and precious metal prospects in Greenland and in Finland.

Offtake agreement for Dundas could be announced in the coming weeks

Discussions are ongoing with a "multinational trading firm" for an offtake agreement, which would guarantee the purchase of up to 2/3 of the 440-490kt annual expected ilmenite output. JAY signed an MoU with its prospective offtake partner in April for 200ktpa, which was subsequently increased to 250-300ktpa. There is potential for the trading firm to also provide a funding package at a later date. Alternatively, the certainty of revenue implied by an offtake deal could open up opportunities to seek funding from other sources. JAY has committed to update the market on its offtake discussions by 31st Oct.

Mining Licence expected soon, with Government support for Dundas

With all public consultation completed, BlueJay are now working to complete an Impact and Benefits Agreement (IBA), as required for their mining licence. Final documentation for the mining licence is now being completed, and we expect receipt by year end. BlueJay are confident in receiving this permit, especially with recent comments of support on the project from Greenland's prime minister Kim Kielsen. In response to Covid-19 delays, the government also recently extended exploration licences and deferred outstanding licence fees by a year, showing ongoing support for mining investment in Greenland.

Likely improved project economics and potential for resource increase

We see significant scope for improvement in project economics as the company optimises the mine-plan, and firms up estimates of capital and operating costs. We currently assume pre-production capex of ~US\$200m, versus the PFS estimate of ~US\$245m. Similarly, all-in sustaining costs were estimated at ~US\$113/t in the PFS, but we assume ~US\$100/t, implying a globally competitive revenue-to-cost ratio of ~2x based on a long-term ilmenite price of US\$200/t. Dundas' Resource is 117Mt at an ilmenite grade of 6.1%, placing the project as one of the world's highest grade TiO₂ deposits, and giving an 11-year Resource life. However, we have assumed this can be extended to ~26 years with ~206Mt of ore mined. Again, we believe this to be a conservative estimate, given SRK and RSC Global have provided JORC-compliant Exploration Targets at Dundas which could increase the Resource to >700Mt.

Valuation - sensitivity to price upside

We maintain our 20p/sh target, but move it to the end of 2021, due to the delays in 2020. We maintain a long-term ilmenite price of US\$200/t and a WACC of 8%, more conservative than the PFS inputs of US\$232/t and 5%. Based on the Resource upside, we still include 17 years of production beyond the 9-year PFS Reserve / 11-year Resource. We reach a Dec'21E NPV of US\$268m for Dundas, to which we apply a 0.8x multiple. The estimated value given to BlueJay's other projects remain unchanged at US\$30m for Disko, US\$10m for Kangerluarsuk and US\$20m for the Finnish assets, with no value assigned to Thunderstone at this stage. We derive a total Dec'21E SOTP of ~US\$257m or 20p/sh, implying 139% share price upside. Furthermore, we note for every US\$10/t delta in ilmenite we would see a ~US\$40m change (~16%) in our Dundas NPV, equivalent to a ~2.6p change in SOTP.

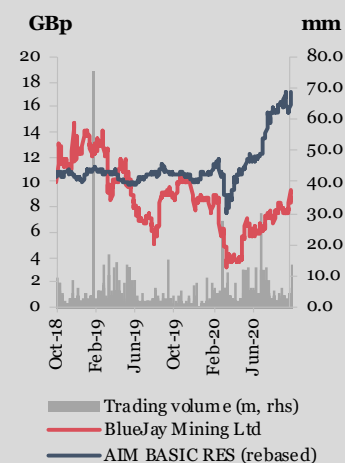
GICS Sector	Materials
Ticker	LN:JAY
Market cap 08-Oct-20 (£m)	81
Share price 08-Oct-20 (GBp)	8.4
Target price 31-Dec-21 (GBp)	20

+139%

Upside from current share price to our 20p/sh target

>700Mt

Potential ilmenite resource at Dundas



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Disko-Nuussuaq and Kangerluarsuk drill programs planned for 2021

BlueJay are developing and actively seeking a partner on their Disko-Nuussuaq project, in order to move it towards production. Disko is a magmatic-massive sulphide deposit (Ni-Cu-PGM-Co) – with anomalies found over a 2,777km² area. To date, boulder assaying has produced results of 7% Ni, 3% Cu and 2ppm PGE. Kangerluarsuk is a Zinc-Lead-Silver project in central-west Greenland in an underexplored but historic mining area. Mineralisation exists within a Proterozoic (1.8-2Ga) metasedimentary basin. The Project is situated 10km south of the former Black Angel mine, Greenland's most profitable mine to date, operated from 1973-90 by Cominco and Boliden.

An extensive drill program at both Disko and Kangerluarsuk, previously planned for 2020, is expected to commence in 2021.

Thunderstone sampling program complete, with results expected in Q4 this year

BlueJay has recently completed a month-long, low-cost Fieldwork Programme at their 100% owned Thunderstone project. This fieldwork tested geochemical anomalies discovered in historic stream sediment samples. Rock, stream sediments and scree were sampled for geochemical analysis to confirm targets for gold, lead-zinc-copper-silver and PGE-Nickel deposition styles. These samples are now at the lab, with results are expected in Q4 this year.

The Thunderstone asset is an orogenic gold and base metal project at the initial stages of exploration. The exploration licences were cheap to acquire, and exploration costs being incurred at the site are minimal. Exploration targets are driven by strong gold, PGE and base metal anomalies, indicating potential to add value to the BlueJay portfolio, especially given the positive price outlook for gold, nickel and copper. BlueJay applied for extensions on the two Thunderstone exploration licences in early August, as a result of previous positive results from re-analysis of historic stream sediment samples.

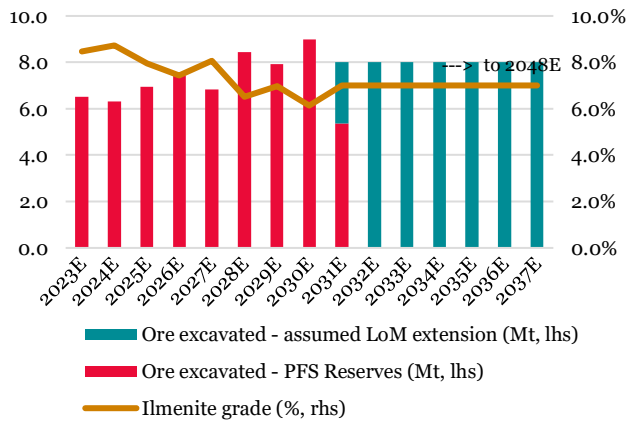
BlueJay are not alone in seeing the opportunity for gold in this part of Greenland, with AEX Gold completing a London IPO on 31st July and raising £42.5m to fund exploration and to re-start the Nalunaq operation, only 15-30km away from targets within BlueJay's Thunderstone licences. Nalunaq produced >350,000 oz of gold between 2004 and 2013 at an average ore grade of 15g/t. The mine was sold by its owner, Angel Mining, due to financial difficulties at the time.

Finnish asset base

BlueJay holds a strong early-stage asset base in Finland. We see increasing interest in this highly prospective country amongst major mining companies as evidenced by Rio Tinto's signing of an earn-in and joint venture agreement with Arctic Minerals in January 2020 for their Peräpohja copper project. BlueJay's Finnish assets are comprised of three high grade copper (with multi-element base metals) deposits. These are the Hammaslahti, Kelkka and Outokumpu Projects, all located in relatively close proximity in southeast Finland.

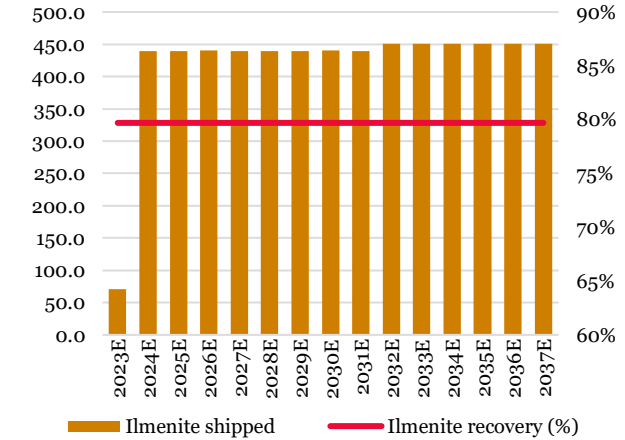
Key Charts

Ore excavated vs Grade



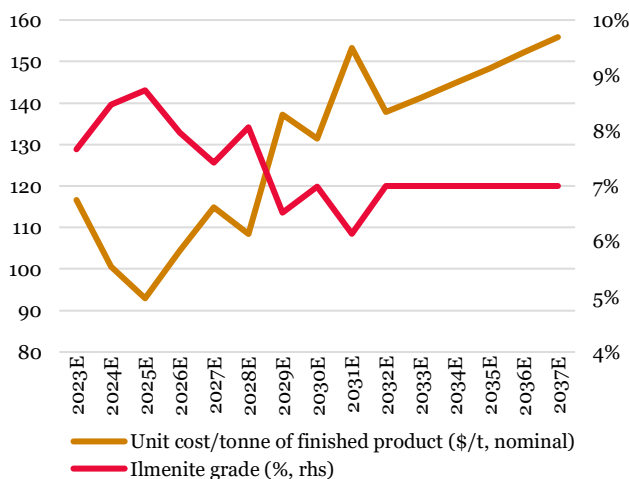
Source: Company reports, H&P estimates.

Ilmenite tonnage shipped and recovery rate



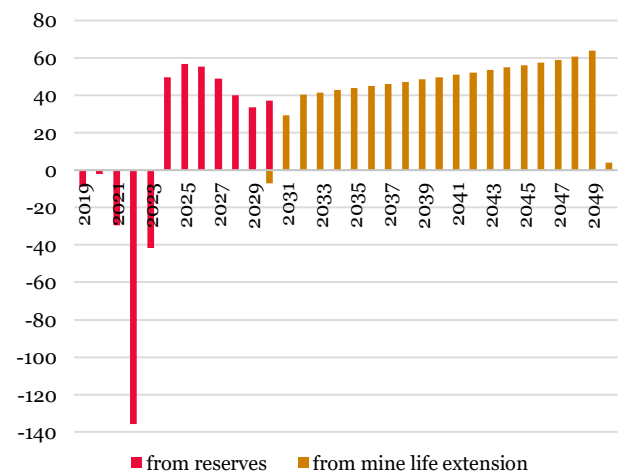
Source: Company reports, H&P estimates.

Unit cost of finished product vs RoM ilmenite grade



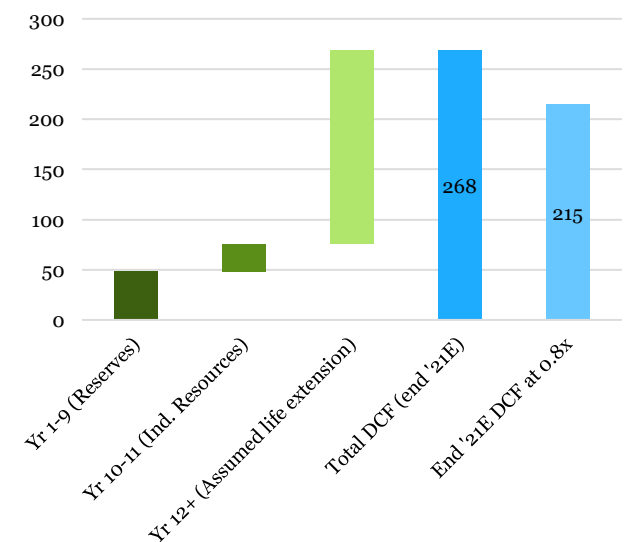
Source: Company reports, H&P estimates.

Dundas FCF (US\$m)



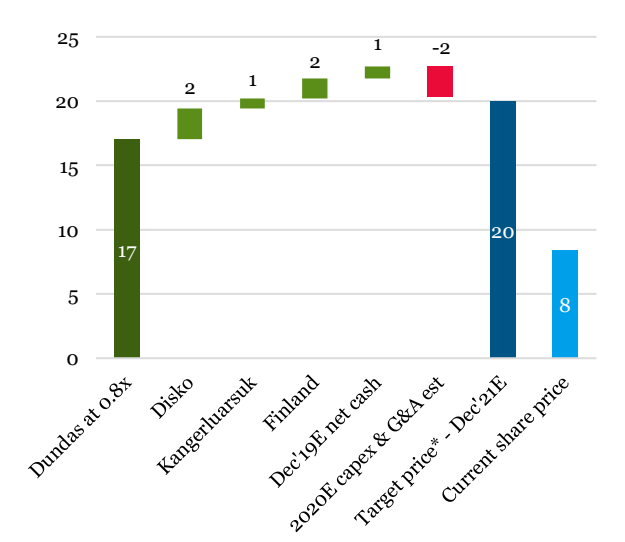
Source: Company reports, H&P estimates.

Dundas DCF breakdown (US\$m)



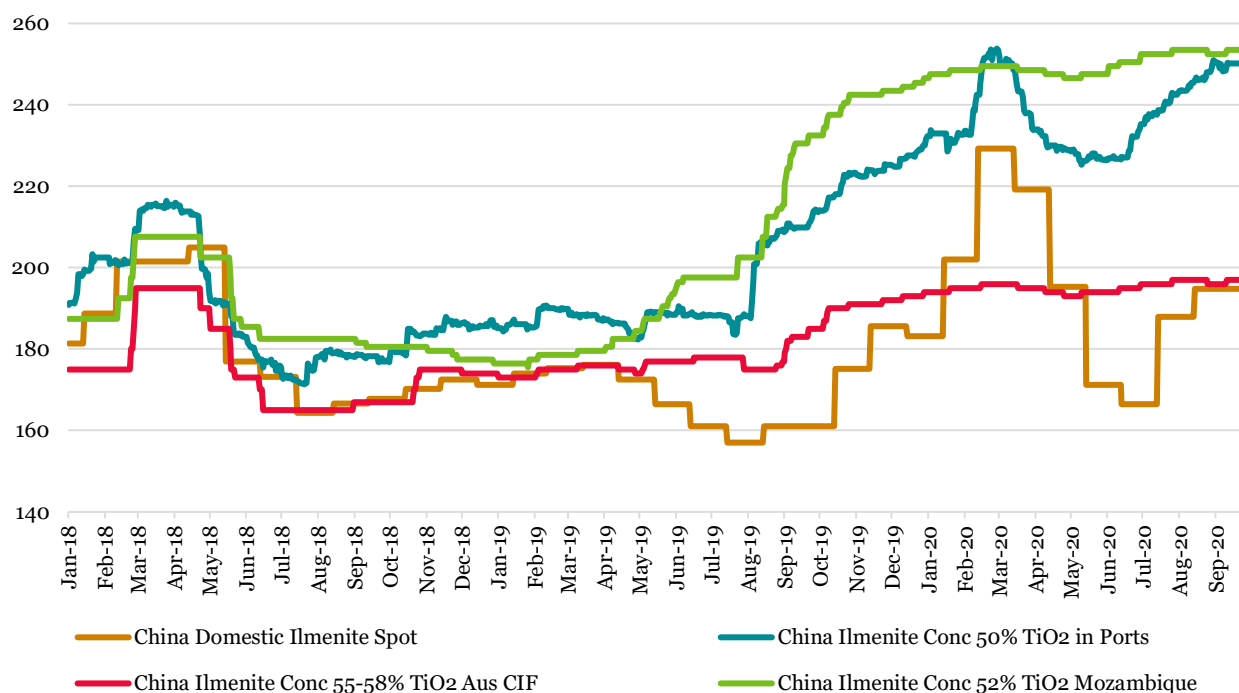
Source: Company reports, H&P estimates.

Price target derivation (GBP per share)



Source: H&P estimates, *PT rounded to nearest 1p.

Recent moves in global ilmenite price benchmarks (US\$/t)



Source: Bloomberg

Valuation/ Price Target Derivation - Dec'21E

	Value - \$m	Multiple	Risked value - \$m	PT - GBp/share
Dundas - DCF discounted to Dec'21E	268	0.8	215	17
Disko - est. value	30	1.0	30	2
Kangerluarsuk - est. value	10	1.0	10	1
Finland	20	1.0	20	2
Total asset value	328		275	22
Net Debt/ Cash - Dec'20E	11	1.0	11	1
Less 2021E capex & G&A	(30)	1.0	(30)	(2)
Total equity SOTP - Dec'21E	310		257	20
Current share price				8.4
Upside/ downside from current share price - %				139%

Source: H&P estimates, Company reports, CapitalIQ.

Ore Reserves & Assumed Mineral Inventory

Category	LoM	Tonnes (Mt)	Ilmenite head grade (%)
Probable Reserves	Years 1 - 9	67.1	7.4%
May'19 Indicated Resource converted to Reserves	Years 10 - 11	16.0	7.0%
Assumed Additional Mineral Inventory	Years 12 - 27	122.6	7.0%

Source: Company reports, H&P estimates.

Dundas Ilmenite Project, Greenland													Average	
Year end December		FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31-48E
Pricing, production & shipments														
Realised Ilmenite price (nominal)	\$/dmt	180.0	189.6	210.1	215.4	220.8	226.3	231.9	237.7	243.7	249.8	256.0	262.4	334.5
Ilmenite production	ooddmt	-	-	-	-	144.5	439.5	439.6	440.8	439.6	439.6	439.6	440.8	445.9
Ilmenite shipped	ooddmt	-	-	-	-	71.1	439.5	439.6	440.8	439.6	439.6	439.6	440.8	449.8
Finished Ilmenite stockpile	ooddmt	-	-	-	-	73.4	73.4	73.4	73.4	73.4	73.4	73.4	73.4	38.8
Revenue														
Total FOB revenue	\$m	-	-	-	-	15.7	99.5	102.0	104.8	107.1	109.8	112.5	115.7	150.5
Cost of Production														
Cash unit opex/t of finished product (nominal)	\$/dmt	-	-	-	-	116.7	100.5	92.9	104.5	114.9	108.4	137.3	131.4	166.3
Cash cost of production	\$m	(1.9)	(2.0)	(2.0)	(2.0)	(16.9)	(44.2)	(40.9)	(46.1)	(50.5)	(47.6)	(60.3)	(57.9)	(74.1)
P&L cost adjusted for inventory moves	\$m	(1.9)	(2.0)	(2.0)	(2.0)	(8.3)	(45.4)	(41.4)	(45.2)	(49.7)	(48.1)	(58.2)	(58.3)	(75.5)
Profit and Loss														
EBITDA	\$m	(1.9)	(2.0)	(2.0)	(2.0)	7.4	54.1	60.5	59.6	57.4	61.7	54.3	57.3	75.0
D&A	\$m	-	-	-	-	(9.6)	(27.2)	(27.1)	(30.5)	(33.4)	(31.5)	(40.0)	(38.3)	(1.4)
Royalties paid	\$m	-	-	-	-	(0.4)	(2.5)	(2.5)	(2.6)	(2.7)	(2.7)	(2.8)	(2.9)	(3.8)
Tax expenses	\$m	-	-	-	-	-	-	-	-	(4.4)	(17.7)	(15.5)	(16.3)	(21.4)
Net profit/loss after tax	\$m	(2.3)	(2.0)	(2.0)	(2.0)	(2.6)	24.4	30.9	26.5	16.9	9.7	(3.9)	(0.3)	48.5
Capital Expenditure														
Sustaining capex	\$m	-	-	-	-	(0.3)	(0.9)	(0.9)	(1.0)	(1.1)	(1.0)	(1.3)	(7.9)	(1.4)
Growth capex	\$m	(5.9)	-	(26.6)	(133.4)	(40.0)	-	-	-	-	-	-	-	-
Capital expenditure	\$m	(5.9)	-	(26.6)	(133.4)	(40.3)	(0.9)	(0.9)	(1.0)	(1.1)	(1.0)	(1.3)	(7.9)	(1.4)
FCF & DCF														
EBITDA	\$m	(1.9)	(2.0)	(2.0)	(2.0)	7.4	54.1	60.5	59.6	57.4	61.7	54.3	57.3	75.0
Movement in working capital	\$m	(0.9)	-	(1.0)	(0.3)	(8.4)	(1.0)	(0.2)	(0.7)	(0.3)	(0.2)	(1.1)	0.0	0.4
Capex	\$m	(5.9)	-	(26.6)	(133.4)	(40.3)	(0.9)	(0.9)	(1.0)	(1.1)	(1.0)	(1.3)	(7.9)	(1.4)
Taxes & royalties paid	\$m	-	-	-	-	(0.4)	(2.5)	(2.5)	(2.6)	(7.1)	(20.4)	(18.3)	(19.2)	(25.1)
Free cash flow	\$m	(8.7)	(2.0)	(29.6)	(135.6)	(41.7)	49.7	56.9	55.3	48.9	40.1	33.7	30.2	48.9
IRR		18%	19%	22%										
Discounted cash flow @8% WACC	\$m	202.9	221.0	268.3										

Source: H&P estimates, Company reports.

Summary Financials & Valuation

Income statement							
Year end December		2019E	2020E	2021E	2022E	2023E	2024E
Revenue	£m	-	-	-	-	12.1	76.5
Cost of Sales	£m	-	-	-	-	(0.8)	(29.9)
Depreciation	£m	(0.5)	-	-	-	(7.4)	(20.9)
Gross profit/(loss)	£m	-	-	-	-	11.2	46.6
Other operating costs	£m	(1.8)	(1.5)	(1.5)	(1.5)	(5.5)	(5.0)
Operating profit/(loss)	£m	(1.8)	(1.5)	(1.5)	(1.5)	5.7	41.6
Finance income	£m	0.0	-	-	-	-	-
Finance Costs	£m	-	-	-	-	-	-
FX gains/losses	£m	(0.1)	-	-	-	-	-
Other gains/(losses)	£m	0.0	-	-	-	(0.3)	(1.9)
Profit/(Loss) before tax	£m	(1.8)	(1.5)	(1.5)	(1.5)	(2.0)	18.8
Tax credit/(expense)	£m	-	-	-	-	-	-
Net profit/(loss)	£m	(1.8)	(1.5)	(1.5)	(1.5)	(2.0)	18.8
EBITDA	£m	(1.8)	(1.5)	(1.5)	(1.5)	5.7	41.6

Cash flow statement							
Year end December		2019E	2020E	2021E	2022E	2023E	2024E
Profit/(loss) before tax	£m	(1.8)	(1.5)	(1.5)	(1.5)	(2.0)	18.8
Depreciation	£m	(0.5)	-	-	-	(7.4)	(20.9)
Other non-cash items/adjustments	£m	0.5	-	-	-	14.8	41.9
Operating cash inflow/(outflow)	£m	(1.8)	(1.5)	(1.5)	(1.5)	5.4	39.7
Working capital change	£m	(0.7)	-	(0.8)	(0.2)	(6.5)	(0.8)
Net interest (paid)/received	£m	(0.7)	-	-	-	-	-
Tax (paid)/received	£m	-	-	-	-	-	-
CFO	£m	(3.2)	(1.5)	(2.3)	(1.7)	(1.1)	38.9
Additions to PPE	£m	(0.5)	-	(20.5)	(102.6)	(31.0)	(0.7)
Other	£m	(7.8)	-	-	-	-	-
CFI	£m	(8.4)	-	(20.5)	(102.6)	(31.0)	(0.7)
Minimum debt repayments	£m	-	-	-	-	-	-
Other movement in net debt	£m	-	-	-	-	-	-
New equity issued	£m	10.9	-	-	-	-	-
Other	£m	(0.2)	-	-	-	-	-
CFE	£m	10.7	-	-	-	-	-
Net change in cash	£m	1.5	(1.5)	(22.8)	(104.3)	(32.1)	38.2
FX impact on cash & equivalents	£m	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Beginning cash & equivalents	£m	8.8	10.3	8.8	(13.9)	(118.3)	(150.4)
Ending cash & equivalents	£m	10.3	8.8	(13.9)	(118.3)	(150.4)	(112.2)

Balance sheet							
Year end December		2019E	2020E	2021E	2022E	2023E	2024E
Cash balance/(funding shortfall)	£m	10.3	8.8	(13.9)	(118.3)	(150.4)	(112.2)
Receivables	£m	1.5	1.5	0.8	1.0	1.0	6.3
Inventory	£m	-	-	-	-	6.6	5.7
Other	£m	-	-	-	-	-	-
Current Assets	£m	11.8	10.3	(13.2)	(117.3)	(142.8)	(100.2)
PPE	£m	2.8	2.8	23.2	125.8	149.4	129.2
Other	£m	23.1	23.1	23.1	23.1	23.1	23.1
Fixed Assets	£m	25.9	25.9	46.4	149.0	172.6	152.3
Payables	£m	1.2	0.8	-	-	0.1	3.7
Short Term Debt	£m	-	-	-	-	-	-
Other	£m	0.1	0.1	0.1	0.1	0.1	0.1
Current Liabilities	£m	1.3	0.9	0.1	0.1	0.2	3.8
Long term debt	£m	-	-	-	-	-	-
Other	£m	0.6	0.6	0.6	0.6	0.6	0.6
Non Current Liabilities	£m	0.6	0.6	0.6	0.6	0.6	0.6
Total Equity	£m	37.7	35.7	33.4	31.9	30.0	52.3

Ratios and per share data							
Year end December		2019E	2020E	2021E	2022E	2023E	2024E
Wtd average shares in issue	m	970.0	970.0	970.0	970.0	970.0	970.0
Revenue growth	%			0%	0%	0%	534%
EBITDA margin	%					47%	54%
ROCE	%	-9%	-6%	-3%	-1%	-1%	13%
ROE	%	-5%	-4%	-5%	-5%	-7%	39%
EPS	£p/sh	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	1.9
Free cash flow	£m	(10.9)	(1.5)	(22.8)	(104.3)	(32.1)	38.2
FCF/share	£m/sh	(0.01)	(0.00)	(0.02)	(0.11)	(0.03)	0.04
Net debt/equity	%	-29%	-26%	42%	378%	514%	234%
EV/EBITDA	x	(54.0)	(67.3)	(82.4)	(152.0)	45.7	5.3
EV/Sales	x					21.5	2.9

Production volumes							
Year end December		2019E	2020E	2021E	2022E	2023E	2024E
Ilmenite	kt	-	-	-	-	145	440

Shipment volumes							
Year end December		2019E	2020E	2021E	2022E	2023E	2024E
Ilmenite	kt	-	-	-	-	71	440

Mineral sands price assumptions (nominal)							
Year end December		2019E	2020E	2021E	2022E	2023E	2024E
Ilmenite - spot	US\$/tonne		190	210	215	221	226
Ilmenite - realised	US\$/tonne				213	218	224

Cash Costs							
Year end December		2019E	2020E	2021E	2022E	2023E	2024E
Cash costs/t finished product	US\$/tonne	-	-	-	-	117	100
Total Cash Cost	US\$m	(2)	(2)	(2)	(2)	(17)	(44)
Cost of sales (P&L)	US\$m	-	-	-	-	(11)	(66)

Market cap, net debt & enterprise value							
Year end December		2019E	2020E	2021E	2022E	2023E	2024E
Market Cap	£m	109.7	109.7	109.7	109.7	109.7	109.7
Net Cash/(Debt)	£m	10.3	8.8	(13.9)	(118.3)	(150.4)	(112.2)
Rolling EV	£m	99.4	100.9	123.7	228.0	260.1	221.9

Valuation/ Price Target Derivation - Dec'19E				
Year end December		Value	Multiple	Risked NAV
Dundas Ilmenite project	US\$m	268.3	0.8	214.6
Other projects	US\$m	60.0	1.0	60.0
Net Debt/ Cash	US\$m	11.5		11.5
Total Value	US\$m	310.2		256.5
Shares outstanding	m			970.0
NPV/ Target Price per share	US cents			26.4
USD/GBP FX	\$/£			1.30
NPV/ Target Price per share*	GBP			20
Current share price	GBP			8.4
Upside from current share price	%			139%

*Rounded to nearest tp

Source: H&P estimates, Company Reports.

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