

BlueJay Mining

Rio Tinto enters JV earn-in option with BlueJay on Enonkoski project - Finland

BlueJay Mining has entered an option with Rio Tinto, allowing Rio to earn-in up to 75% in a Joint Venture agreement on BlueJay's Enonkoski Nickel project in southeast Finland. This should accelerate exploration, advancing the Enonkoski project over the coming years. Along with Enonkoski, BlueJay also owns 100% of two other exploration licences in Finland. Namely, Hammaslahti and Outokumpu. These sites are both associated with previously producing copper mines.

Rio Tinto's interest highlights the quality of BlueJay's Finnish assets

We had previously highlighted Rio Tinto's growing interest in Finland, acquiring early stage assets in the highly prospective country. In January 2020, Rio signed a similar earn-in and Joint Venture agreement with Arctic Minerals, on the company's Peräpohja copper project. The major's interest highlights the prospectivity of Finland, its attractiveness as a mining jurisdiction and the quality of the Enonkoski prospect. This announcement backs up our initial US\$20m valuation of BlueJay's Finnish assets within our SOTP target of 20p/share.

Option for Joint Venture involves staged milestone expenditure over 9 years

The agreement states that Rio Tinto can acquire up to 75% of Enonkoski by spending US\$20m on the project or making equivalent cash payments. This expenditure is planned to be carried out in stages; Stage one involves Rio Tinto spending US\$5m by November 2023, to reach 51% ownership on the project. BlueJay estimate that US\$0.4m of this will be spent by March next year. Stage two involves the option for Rio Tinto to spend a further US\$5m over the following 2 years, by November 2025, moving them to 65% ownership of the project. Stage 3 then requires Rio Tinto spend a further US\$10m over the following 4 years, by November 2029. Beyond this date, additional funding shall be based on the resulting 75:25 Joint Venture.

Additional upcoming catalysts for BlueJay's share price

We see further upside to BlueJay's shares as additional milestones are reached in coming months. One upcoming update is expected to be the receipt of the Dundas mining licence, allowing the company to press on with development of their flagship project. While BlueJay has to date resisted giving any firm guidance on when it expects the licence to be granted, [comments supporting Dundas from Greenland's prime minister](#), Kim Kielsen, suggest the permit could arrive by year-end. In addition, an offtake agreement for Dundas' ilmenite product could be announced soon, with [discussions ongoing](#) with a major corporation for the commitment to purchase 2/3 of expected ilmenite production. The company announced on 27th Oct that its Offtake MoU had been extended by four weeks while negotiations on definitive terms continue. BlueJay are also in the process of optimising the Dundas PFS, which should result in improved capital and operating costs. Finally, we note BlueJay recently listed its shares on the OTCQB market, allowing them to tap into demand from prospective investors in the US, and potentially providing a marginal boost to the shares.

Valuation – Maintaining our 20p/sh target for end of 2021

We maintain our long-term ilmenite price estimate 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 maintain a Dec'21E NPV of US\$268m for Dundas, with a 0.8x multiple applied. The estimated value given to BlueJay's other projects remains 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.

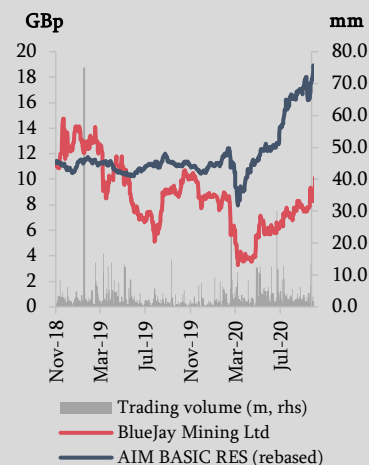
GICS Sector	Materials
Ticker	LN:JAY
Market cap 09-Nov-20 (£m)	96.4
Share price 09-Nov-20 (GBP)	10.0
Target price 31-Dec-21 (GBP)	20

+100%

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

>700Mt

Potential ilmenite resource at Dundas



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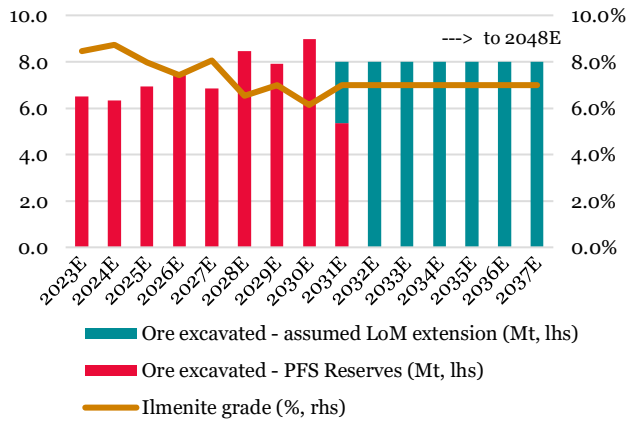
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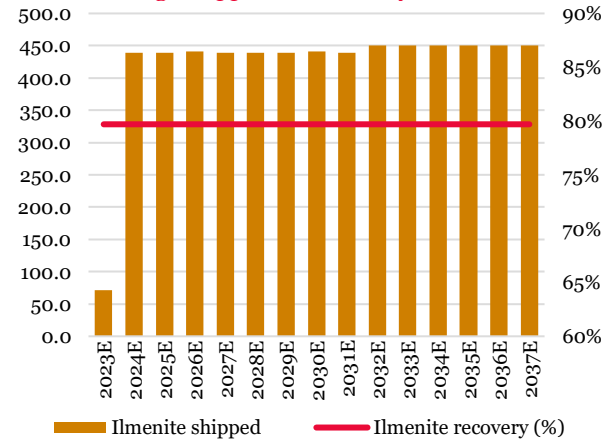
Key Charts

Ore excavated vs Grade



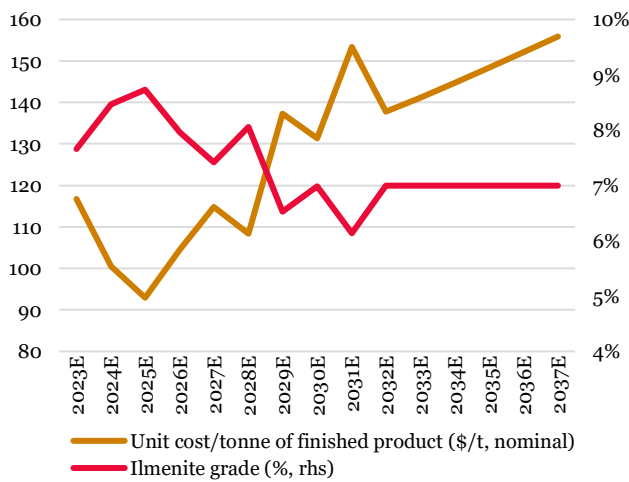
Source: Company reports, H&P estimates.

Ilmenite tonnage shipped and recovery rate



Source: Company reports, H&P estimates.

Unit cost of finished product vs RoM ilmenite grade



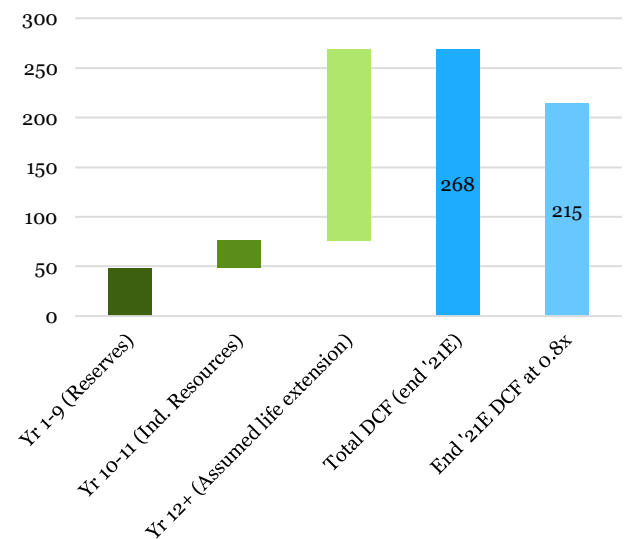
Source: Company reports, H&P estimates.

Dundas FCF (US\$m)



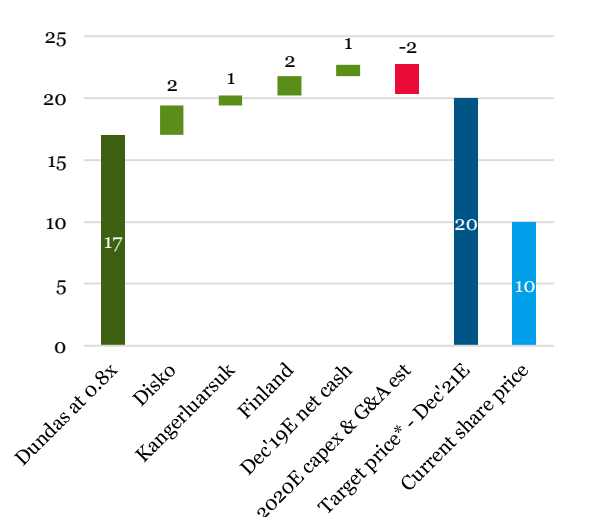
Source: Company reports, H&P estimates.

Dundas DCF breakdown (US\$m)



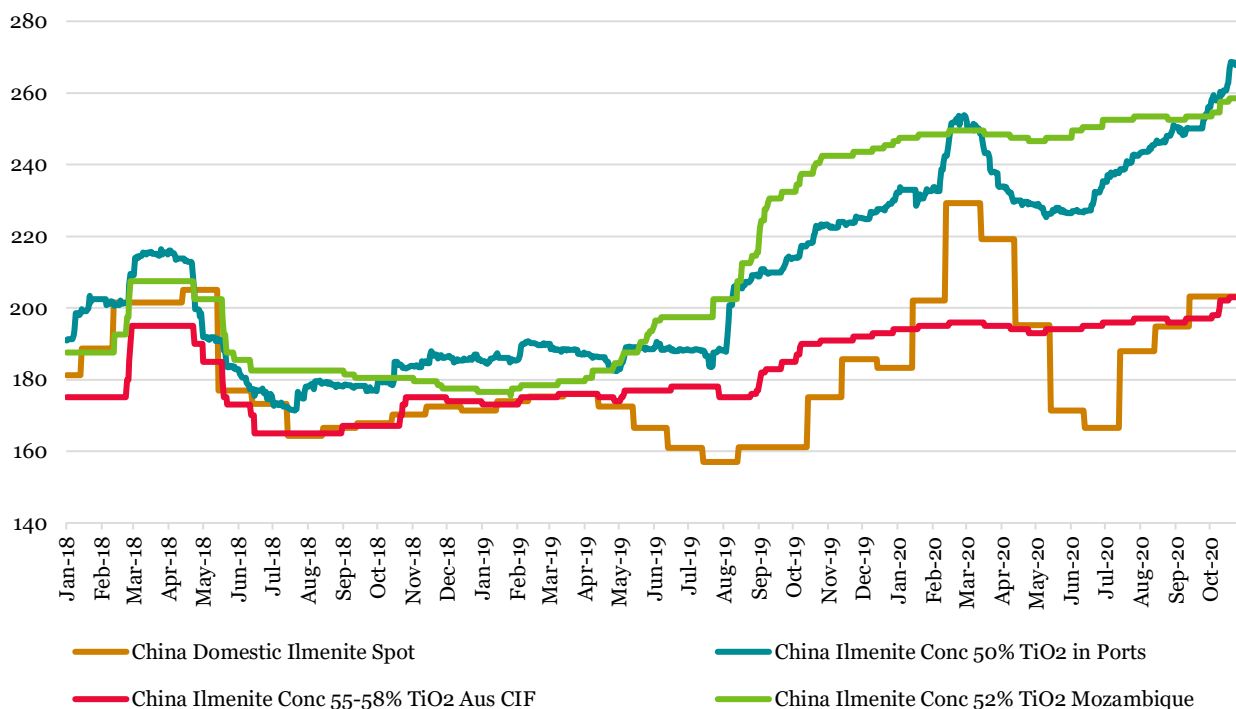
Source: Company reports, H&P estimates.

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				10.0
Upside/ downside from current share price - %				100%

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			10.0
Upside from current share price	%			100%

*Rounded to nearest 1p

Source: H&P estimates, Company Reports.

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