

BlueJay Mining

Dundas Exploitation Licence granted; offtake deal expected soon

BlueJay Mining PLC (JAY) has announced the granting of an Exploitation Licence for the Dundas Ilmenite Project. The license will be signed by the Government of Greenland in a virtual ceremony later today, enabling the company to enter the procurement, construction and production phases. The license will be valid for 30 years, with an option to extend if required, giving plenty of room for additions to the current ~9-year Reserve life. BlueJay plans to produce 440ktpa of ilmenite as indicated in the PFS, but this initial production level can be upscaled. The awarding of this licence represents an important milestone in the advancement of the project, allowing BlueJay to further progress financing negotiations with new and existing interested parties, including a potential offtake partner.

Extensive regional engagement has fostered strong community relations

A comprehensive environmental and social impact assessment conducted at Dundas has helped to build a sound relationship with the local community. BlueJay has also engaged in extensive community consultation and collaborated with educational institutions to provide the locals with the necessary skills to work at the Dundas Project in a bid to boost local employment. This, coupled with supportive comments from various official bodies, are testament to BlueJay's responsible stewardship of the project to date, and could support the company's efforts to access low-cost, government-backed funding options. We also note the Government of Greenland will receive royalties of 1% and 2% in years 1 and 2, respectively, and 2.5% from year 3 onwards, which realistically implies a 2.5% royalty over the life-of-mine given the timeline to first production.

Upcoming catalysts & timeline to production

Offtake discussions are ongoing with a large multinational trading company, and we note the company "anticipate[s] reaching a commercial [offtake] agreement very soon". BlueJay expects the agreement to cover a minimum of 200ktpa and potentially up to 300ktpa, roughly 2/3 of Dundas' annual production. The combination of an Exploitation Licence and Offtake deal would give a solid platform to explore various project financing options, in our view. There is also the potential for an offtake deal to come with a funding commitment, allowing JAY to accelerate the ongoing optimisation of its PFS and commence a full Bankable Feasibility Study. We have modelled first production from 2023, subject to Governmental sign-off of the exploitation and closure plan by the end of 2022, as stipulated in the Exploitation Licence awarded today. With the PFS review targeting capital and operating cost reductions, we have assumed in our DCF that the initial capex budget will be ~US\$200m, compared to the US\$245m in the 2019 PFS. Meanwhile, we note JAY is considering the installation of renewable power capacity; while we believe this may involve additional capital, it could also attract very low cost state-backed loans or grants, whilst reducing energy costs.

Valuation - sensitivity to price upside

We retain a Dec'21 target price of 20p per share, implying 62% upside from the current price. This is based on a WACC of 8% and long-term real ilmenite price of US\$200/t (FOB), more conservative than the PFS inputs of 5% and US\$232/t, respectively. Based on the potential size of the Resource, we model 17 years of production beyond the 9-year PFS Reserve. On this basis we reach an NPV of US\$268m for Dundas, to which we apply a 0.8x multiple. We then add a further US\$60m in nominal value for JAY's earlier-stage but equally attractive exploration assets: US\$30m for Disko, US\$10m for Kangerluarsuk and US\$20m for the Finnish licences. Adjusting for working capital and G&A, we derive a total Dec'21E SOTP of ~US\$257m (20p/sh). Furthermore, we note for every US\$10/t delta in ilmenite we would see a ~US\$32m change (~12.5%) in our Dundas NPV, equivalent to a ~2.6p change in SOTP; marking-to-market for current ilmenite prices of ~US\$260/t, this would imply ~80% further upside to our PT.

GICS Sector	Materials
Ticker	LN:JAY
Market cap 11-Dec-20 (US\$m)	119
Share price 11-Dec-20 (GBp)	12.2
Target price 31-Dec-21 (GBp)	20

+64%

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

>700Mt

Potential ilmenite resource at Dundas



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Roger Bell

Director, Mining Research

T +44-207-907-8534

E rb@hannam.partners

Jay Ashfield

Director, Mining Sales

T +44-207-907-8500

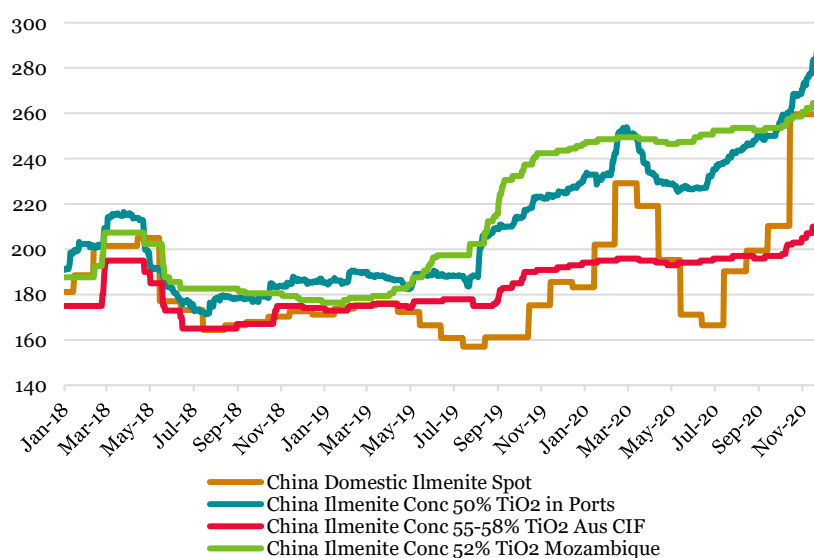
E ja@hannam.partners

H&P Advisory Ltd

2 Park Street, Mayfair
London W1K 2HX

More confident outlook for ilmenite prices

Market commentary has recently turned more positive with global pigment demand now recovering quicker than expected after a lull in Q2 and Q3. Although realised prices did dip slightly in Q3, they appear to have been cushioned by curtailments in both Chinese domestic and seaborne supply. Commentators now see a more robust outlook for ilmenite markets in 2021, somewhat fortuitously coinciding with JAY obtaining their Exploitation License and entering a key phase in Offtake and potential funding negotiations. Based on ilmenite indices available on Bloomberg, Chinese domestic pricing is now around US\$260/t, up ~US\$95/t from June lows, while import prices could be as high as US\$287/t, up ~US\$60/t.

Ilmenite price strength continues in 2020 (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				12.2
Upside/ downside from current share price - %				64%

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

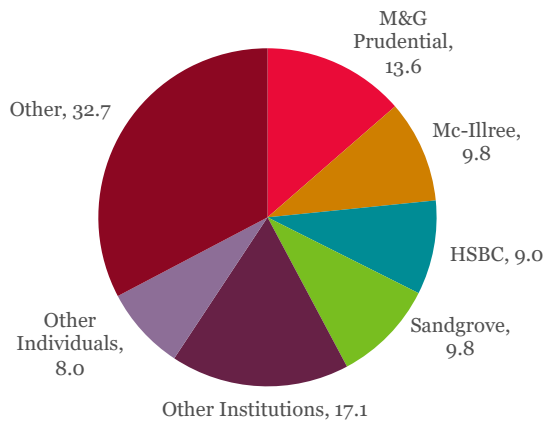
Ore Reserves & Assumed Mineral Inventory

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.

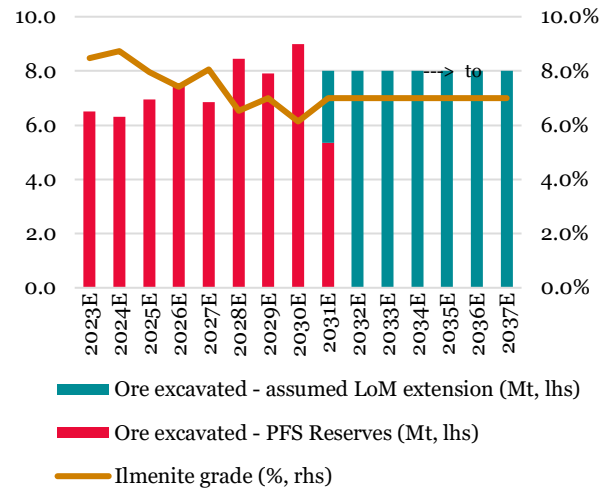
Key Charts

Shareholder Structure



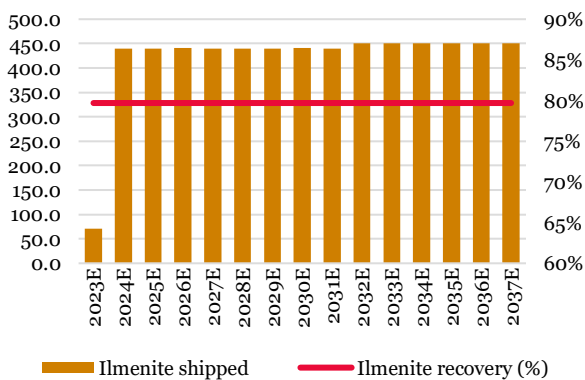
Source: Company report

Ore excavated vs Grade



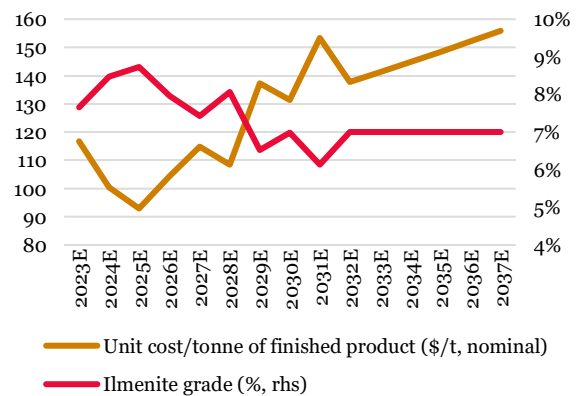
Source: Company reports, H&P estimates.

Ilmenite tonnage shipped and recovery rate



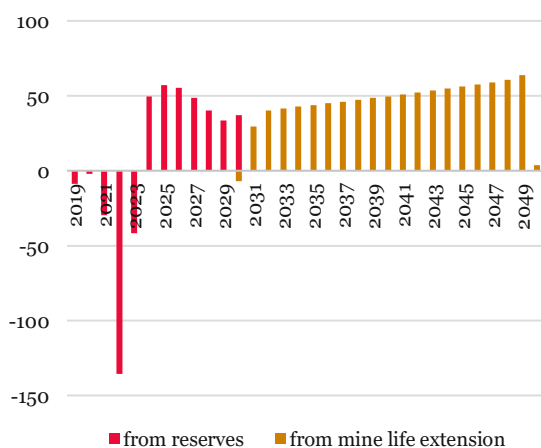
Source: Company reports, H&P estimates.

Unit cost of finished product vs RoM ilmenite grade



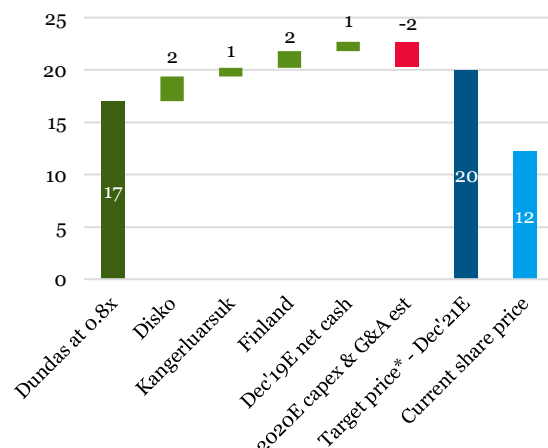
Source: Company reports, H&P estimates.

Dundas FCF (US\$m)



Source: Company reports, H&P estimates.

Price target derivation (GBP per share)



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

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			12.2
Upside from current share price	%			64%

*Rounded to nearest 1p

Source: H&P estimates, Company Reports.

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