

Blencowe Resources (BRES.L)* 15th December 2021



Following the recent publication of Blencowe Resources' Preliminary Economic Assessment (PEA) on its Orom-Cross graphite project in Uganda and GM approval by shareholders last week for a £2m over-subscribed funding at 5.0p, in this research note we analyse the PEA's conclusions to determine a risk based valuation and look ahead to key news events anticipated.

- The **PEA** calculated an estimated **NPV8 of \$317m** (IRR 49%) based on a 13-year mine life, with operating margins of 47.4% and an initial capital cost of \$80m (4-year payback).
- Very **low operating costs at \$498 p/t**, which is aided by the shallow open pit nature of the deposit and low strip ratio, would make Orom-Cross one of the lower cost graphite producers in the world.
- Scope exists to decrease the already low operating costs further, e.g. transport and logistics costs (\$92 p/t) could be reduced once the Mombasa to Kampala railway is completed in 2025, reducing the need for road transport to Mombasa port.
- The **13-year mine life** is likely to be significantly extended, given the PEA is based on just 16.3mt drilled to date to JORC standard, representing only a tiny fraction (<1%) of an enormous estimated 2 to 3 billion tonnes flake graphite deposit.
- Orom-Cross is **100% owned** by Blencowe, which thereby provides the opportunity to bring in JV partners to share future development costs. Orom-Cross also benefits from a 21-year mining licence being in place (granted in 2019).
- Around 65% of annual production is expected to be sold into the battery metals market, to provide an essential raw material input into Li-ion batteries, to help meet anticipated strong global graphite demand as the EV revolution takes hold.
- Orom-Cross has a high 97.3% total graphite content (TGC) grade (with low impurities and a good mix of jumbo/large flakes), which is more than sufficient to meet battery grade graphite requirements, which normally start at around 94% TGC.

Opinion & Recommendation

We have used the NPV8 of \$317m from the Orom-Cross PEA to determine a risk based valuation by deducting 40% for development/resource risk, 60% for finance risk and 25% for country risk to arrive at an estimated \$57.1m (£43m) value. This equates to a price per share for Blencowe of 27p and FEQ's share price target.

Work is now underway on the Pre-Feasibility (PFS) study conducted by an independent consultant, which is also to include an upgraded JORC resource statement. This may improve the current project NPV numbers and help us reduce the development/resource risk parameters in our calculations to thereby improve the price target valuation. We may also learn over the next 9-months if progress is being made in securing off-take partners, which would help in lowering our finance risk factor.

A price target of 27p represents a more than 4 times uplift from the current share price of 4.45p. The market valuation still seems anchored in the past prior to the Company revealing a JORC resource statement and outlining its very strong economic case for a graphite mine in the PEA announcement at the end of September.

We believe a significant market re-rating awaits Blencowe Resources, as investors begin to appreciate the size and scale of the low-cost project being developed and its importance in feeding the EV market with essential battery grade graphite. For these reasons and those outlined above, we recommend the shares as a '**Buy**' and suggest investors position themselves in the stock.

(NB: \$ = US\$)



TP 27p

MARKET DATA:

Name:	Blencowe Resources
Ticker:	BRES.L
Price:	4.45p
SII	161.9m
Warrants:	69.8m avg. ex price 7.5p.
Market Cap:	£7.2m
Sector:	Resources
Geo:	Uganda
Listing:	LSE-SL

FINANCIALS:

Cash:	£2.3m (est. 9/12/21)
Last Placing:	Nov 21, £2m @5p
Last Results:	02/06/21 – H/Y report

ACTIVITIES:

Exploration & development of the Orom-Cross graphite project in Uganda.

KEY PROJECTS / ASSETS:

Orom-Cross (100%)

DIRECTORS & MANAGEMENT:

Cameron Pearce (Exec Chairman)
Mike Ralston (CEO)
Ian Wearing (COO)
Sam Quinn (Non-Exec)
Alan Passmore (Non-Exec)

SHAREHOLDINGS SUMMARY: (>3%)

Orom-Cross Vendor – 12%
Board & Management – 11%
Spreadex Ltd – 7%
Brandon Hill Capital – 5%.

***First Equity Limited acts as Broker to Blencowe Resources Plc.**

ANALYST

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Section A: Valuation Tables

PEA Summary		Notes
Life of Mine	Initial 13 years	An improvement to JORC after additional drilling could add to mine life.
Average Annual Production	75,000 tpa	Split into four different mesh sizes for sales. 65% sold into battery metals market.
Recovery Rate	90%	Composite product – per metallurgical test work.
Capital Cost (including 15% contingency)	\$80m	Plant, all infrastructure, vehicles and camp.
Cash Operating Costs	\$498 p/t	End-products exported via Mombasa port as concentrate.
Weighted Average Selling Price	\$1,050 p/t	Using 2025 forecast pricing, overall for all four products sold.
EBITDA	\$40m	Average pre-tax earnings over life of mine.
Cumulative Free Cash	\$351m	Total over 13-year mine life, after repayment of all debt.

Fig 1: PEA indicators (Source: Blencowe Resources plc, RNS 27 Sept 2021).

FEQ Est. Risked NPV	Risk %	Est Value	Notes
NPV8		\$317.0m	Est from Blencowe internal PEA, as published on 29 September 2021, using a NPV discount factor of 8%
Development / Resource Risk	40%	\$190.2m	JORC Resource proving up, mine development and processing risks.
Finance Risk	60%	\$76.1m	Risk of not securing off-take partners and raising mine CAPEX.
Country Risk	25%	\$57.1m	Geo-political risks of operating in Uganda, which are low for Africa, with a stable government, same ruling party and president in power since 1986.
Est Risk Value		£43m	(£/US\$1.32 ex rate).
Valuation Per Share		27p	161.9m shares in issue.

Fig 2: Risked based estimates for Orom-Cross (Source: First Equity Limited).

Section B: Anticipated Timelines and Strategy

Year	Milestone / Potential News Event
2022	2022 (Q1) Revised JORC Resource upgrade. 2022 (Q1) Further metallurgical test results. 2022 (mid-year) Complete Pre-Feasibility Study. 2022 (mid-year) Identify off-take parties.
2023	Early 2023 – Pilot plant commissioned, producing small quantum graphite on-site. 2H 2023 – Decision to mine (full investment & plant). 2H 2023 – Raise necessary CAPEX funding.
2024	Development of plant and infrastructure.
2025	Start of mining and production ramp up.

Fig 3: Estimated forward strategy and anticipated timelines (Source Blencowe Resources plc – Nov 2021 Presentation).

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First Equity Limited clients and employees hold shares in Blencowe Resources plc.

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