

PFS Milestone achieved, as Blencowe moves nearer Producer Status.

Blencowe Resources (BRES.L) announced this morning results of the Pre-Feasibility Study (PFS) on its advanced stage Orom-Cross project via technical experts Battery Limits Pty Limited, which shows a potential graphite mine could be a highly profitable operation. In this note we compare the PFS numbers published to those of the internally produced Preliminary Economic Assessment (PEA) from last year and update our valuation estimates.

- The **PFS** calculated a post-tax NPV8 of **\$482m**, a substantial 52% improvement on the PEA NPV8 of \$317m, with a lower initial CAPEX of \$62m (PEA \$80m) and cumulative mine-life free cash flow of **\$1,073m** (PEA \$351m).
- Very **low operating costs** at **\$499 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 operating costs, e.g. transport and logistics costs (\$110 p/t). This could be lowered once the Mombasa to Kampala railway is completed, reducing the need for road transport to the port in Mombasa.
- The **14-year mine life** is likely to be significantly extended, given the PFS is based on just 24.5mt drilled to date to JORC standard, representing only a tiny fraction of an enormous estimated 2 to 3 billion tonnes flake graphite deposit.
- Blencowe is applying for a **Free Trade Zone Licence (FTZL)** in Uganda, which amongst other advantages would include a 10-year corporate tax exemption.
- Most of annual production is expected to be sold into the battery metals market, to provide an essential raw material input for Li-ion batteries, to meet anticipated strong global graphite demand as the EV revolution takes hold. Other end-markets are expected to be within engineered products and thermal management.
- Orom-Cross is **100% owned** by Blencowe, which provides an opportunity to bring in JV partners to share future development costs. Orom-Cross also benefits from a 21-year mining licence (granted in 2019).

Opinion & Recommendation

Using the new PFS numbers, we have updated our risked valuation model, based upon a revised NPV8 of **\$482m** for Orom-Cross and by applying a 30% development/resource, 50% finance and 25% country risk factors to derive an estimated **£105.4m** (prev. £43m) value. A move up the project development curve from PEA to PFS, the publication of an improved JORC resource and metallurgical results over the last few months has lowered some of the risk parameters in our valuation. The commencement of a pilot plant later this year and possible securing of initial off-take customers could lower some of these risk factors further.

A £105.4m risked graphite project value equates to a price per share of 59p, which is more than double our previous 27p target and represents an uplift of around 18 times from the current share price of 3.55p. For the time being and to keep the maths simple, we have assumed a nil value for Blencowe's new nickel project. The current market perception (market cap only £6.3m) remains stubbornly anchored in the past and assumes Blencowe is an early stage exploration enterprise, rather than one that has now demonstrated the clear economic case for a graphite mine operation.

We believe today's PFS publication could spark a rebound in the shares as investors begin to appreciate the size and scale of this low-cost project being developed and its importance in supplying the **EV** market with much needed battery grade graphite, along with other end-user market requirements. For the reasons outlined above and our risked based derived valuation, we recommend Blencowe Resources as a **'Buy'**, with a price target per share of **59p**.

(NB: \$ = US\$)



TP 59p

MARKET DATA:

Name:	Blencowe Resources
Ticker:	BRES.L
Price:	3.55p
SII:	177.9m
Warrants:	82.9p (avg 7.5p ex. price)
Market Cap:	£6.3m
Sector:	Resources
Geo:	Uganda
Listing:	LSE-SL

FINANCIALS:

Last Placing:	Apr 22, £0.8m @5p
Last Results:	23/06/22 – H/Y Report

ACTIVITIES:

Exploration and development of graphite and nickel projects in Uganda.

PROJECTS / ASSETS:

Orom-Cross (100%) – graphite
Akelikongo (earn-in) - nickel

DIRECTORS & MANAGEMENT:

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

SHAREHOLDINGS SUMMARY: (>5%)

RAB Capital – 10%
Board & Management – 9%
Jub Capital – 7%

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

ANALYST

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Section A: Valuation Tables

Key Parameters	PFS (19/07/22)	PEA (15/12/21)	PFS Notes
Life of Mine	Initial 14 years	Initial 13 years	Can be extended with further drilling
Average Annual Production	101,000 tpa	75,000 tpa	Start-up 36,000 tonnes per annum (tpa), moving to 147,000 tpa by Year 7 of operation.
Capital Cost	\$62m	\$80m	Plant, all infrastructure, vehicles and camp. PFS includes an 7.8% contingency (15% PEA).
Cash Operating Costs	\$499 p/t	\$498 p/t	End-products exported via Mombasa port as concentrate.
Weighted Average Selling Price	\$1,307 p/t	\$1,050 p/t	5 different end-products produced of varying mesh sizes.
EBITDA	\$100m	\$40m	Average pre-tax earnings over life of mine.
Cumulative Free Cash	\$1,073m	\$351m	Total over mine life, after repayment of debt.

Fig 1: PFS and PEA Comparison Indicators (Source: Blencowe Resources plc, RNS 19 July 2022 and 27 Sept 2021).

FEQ Est. Risked NPV	Risk %	PFS Est (19/07/22)	PEA Est (15/12/21)	Notes
NPV8 (post-tax)		\$482.0m	\$317.0m	Est from Blencowe internal PEA, as published on 29 September 2021, using NPV discount factor of 8%.
Development / Resource Risk	30% (40% PEA)	\$337.4m	\$190.2m	JORC Resource proving up, mine development and processing risks. PFS publication has lowered risk since PEA.
Finance Risk	50% (60% PEA)	\$168.7m	\$76.1m	Risk of not securing off-take partners and raising mine CAPEX. PFS publication and recent metallurgical test results has lowered risk since PEA.
Country Risk	25% (unchanged)	\$126.5m	\$57.1m	Geo-political risks of operating in Uganda, are low for Africa, with a stable government, same ruling party and president in power since 1986.
Est Risk Value		£105.4m	£43m	(£/US\$1.20 ex rate), stronger US\$ has enhanced valuation since (£/US\$1.32 ex rate) the 15/12/21 note.
Valuation Per Share		59p	27p	177.93m shares in issue (prev. 161.9m).

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 (Q3/Q4) – Start Definitive Feasibility Study (DFS) including Stage 'P' plant.
2023	2H 2023 – Stage 'P' plant. commissioned, producing small quantum graphite on-site. By end-2023 – DFS Completion. By end-2023 – Decision to mine (main plant). By end-2023 – Raise CAPEX.
2024	Development of main plant and infrastructure.
2025	Start of mining and ramp up of production thereafter

Fig 3: Estimated forward strategy and anticipated timelines (Source: Blencowe Resources plc – July 2022 Presentation).

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