

## US Government Funding to Set Blencowe onto Mining Path?

**Blencowe Resources (BRES.L)** recent announcement it had secured a \$5m Technical Assistance Grant (TAG) from the **Development Finance Corporation (DFC)** to provide funding for the Definitive Feasibility Study (DFS) for its Orom-Cross graphite project is a significant milestone for the Group. In this updated note we consider what impact this has on our risked project valuation and Blencowe share price target.

- The **\$5m DFC grant** provides funding for a sizeable portion of all DFS costs. The grant is only repayable if the project is funded into production.
- Orom-Cross is the first graphite project in the world to be financed by a US government grant through the DFC. Moreover, it is a non-dilutive equity source of funds that also preserves Blencowe's 100% project interest in Orom-Cross.
- DFC also has first right of refusal to project finance Orom-Cross which could provide all or most of the CAPEX required to move into the mining stage.
- By using DFC funds Blencowe will be able to evaluate if a **downstream processing facility** can be added to produce 99.95% uncoated battery-ready SPG (spheronised, purified graphite). An SPG end-product, would command a much higher price in the order of **3x to 4x** that of ordinary concentrate with offtake customers.
- Underlying the potential size of Orom-Cross and one of the many upside opportunities, is the fact that the current JORC resource of **24.5 Mt @ 6% total graphite content**, represents only around 2% of the licence area drilled to date. A significant portion of DFS funds will be used for further drilling to increase the JORC resource.
- Blencowe owns **100%** of Orom-Cross, which provides an opportunity and option to bring in a JV partner to share development costs ahead if required. The Project also benefits from a 21-year mining licence (granted in 2019).
- Orom-Cross **end-product** has been through several international **graphite metallurgy experts** who have all confirmed it upgrades to a pure concentrate that will likely attract end users. The pre-qualification process to ultimately secure binding offtake contracts is underway.

**Opinion & Recommendation** - The securing of a \$5m grant from the DFC is a commendable achievement for Blencowe and significantly reduces financing risks at Orom-Cross. We have re-calibrated the PFS published last year from a NPV8 to NPV10 to reflect a higher cost of borrowing world (from \$482m to **\$402m**) and applied certain development/resource (30%), finance (12%) and country (25%) risk factors. The impact of the DFC grant and potential for it to lead to securing project construction funds has resulted in our finance risk being slashed from **40% to 12%**. By applying all these risk factors to our NPV10, we calculate a valuation of **\$185.7m**, an increase of **46%** on our previous \$126.5m estimate.

Using the current no of shares in issue and 100% project interest this would imply a price per share of **73p** (prev. 59p). If we factor in the impact of possible share dilution over the next 24-months, we arrive at a 46p valuation. Taking an even more prudent approach and assuming Blencowe ends up with a 51% project interest if a JV partner was bought in, then a 23p value is calculated. Although if the DFC provides significant debt funding to construct a mine, such a severe project dilution may not be needed, instead a smaller valuation adjustment would be made according to the impact on future cash flows from whatever potential funding solution is provided.

Further upside, which is not factored into our estimates could come from an improvement in the resource size to increase mine life, higher p.a. production volumes and building of a downstream processing facility. The latter of these enhancements is the most exciting and possible now with the financial muscle of the DFC, whose involvement now has potential to elevate the project nearer a telephone number style valuation. With all the above thoughts in mind, we recommend the shares as a **'Buy'**, with a price target range of **23p to 46p** per share, both of which are much higher than the current share price of around 5p.



**TP 23p to 46p range**

### MARKET DATA:

<b>Name:</b>	Blencowe Resources
<b>Ticker:</b>	BRES.L
<b>Price:</b>	4.80p
<b>SII:</b>	209.4m
<b>Warrants:</b>	79.0m
<b>Market Cap:</b>	£10m
<b>Sector:</b>	Resources
<b>Geo:</b>	Uganda
<b>Listing:</b>	LSE-SL

### FINANCIALS:

<b>Last Placing:</b>	£635K @5p – May '23.
<b>FY:</b>	31 Sept
<b>Last Results:</b>	02/06/23 – Half-Year Report

### ACTIVITIES:

Exploration and development of graphite and nickel projects in Uganda.

### PROJECTS / ASSETS:

**Orom-Cross (100%)** – graphite

### DIRECTORS & MANAGEMENT:

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

### SHAREHOLDINGS SUMMARY: (>5%)

<b>RAB Capital</b>	– 11.3%
<b>Jangada Mines</b>	– 10.2%
<b>Jub Capital</b>	– 8.2%

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

### ANALYST

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**Section A: Valuation Tables**

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

Fig 1: PFS Parameters (Source: Blencowe Resources plc, RNS 19 July 2022).

FEQ Est. Risked NPV	Risk % (prev. est.)	Est (05/10/23)	Est (19/07/22)	Notes
NPV (post-tax)		\$402.0m (NPV10)	\$482.0m (NPV8)	Est from PFS, calculated on NPV10 basis than NPV8 due to higher global borrowing cost environment.
Development / Resource Risk	30% (unchanged)	\$281.4m	\$337.4m	JORC Resource proving up, mine development and processing risks. PFS publication has lowered risk since PEA.
Finance Risk	12% 40% - 1/23 50% - 7/22	\$247.6m	\$168.7m	Risk of not securing off-take partners and raising mine finance CAPEX. DFC funding significantly reduce such risks.
Country Risk	25% (unchanged)	\$185.7m	\$126.5m	Geo-political risks of operating in Uganda, low for Africa, with stable government, same ruling party and president in power since 1986.
Est Risked Value		£153.5m	£105.4m	(£/US\$1.21 ex rate)
Base Valuation Per Share (100%)		73p	59p	209.4m current shares in issue (prev. 177.9m)
Valuation on Projected Dilution Per Share (100%)		46p	n/a	Estimate 331m shares in issue in 24-months, assuming 70% options/warrants exercised and some funds raised for corporate overheads and other requirements.
At 75% Project Value		35p	n/a	Price per share at potential 75% and 51% project interests if JV partner secured to assist in CAPEX or ramp-up fundings.
At 51% Project Value		23p	n/a	

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

**Section B: Anticipated Timelines and Strategy**

Year	Milestone / Potential News Event
2023	Q3 – DFS commencement.
2024	Q4 – Completion of DFS and decision to mine (main plant).
2025	Development of main plant and infrastructure (Phase 1). End of 2025 – First Mining and then ramp up in 2026.
2026 to 2028	Assuming tests during DFS are positive, then development of a SPG plant to deliver 50,000 tpa of uncoated SPG for battery-ready product (Phase 2) and then ramp up to 3.2 Mtpa plant to deliver 200,000 tpa concentrate (Phase 3).

*Fig 3: Estimated forward strategy and anticipated timelines (Source: Blencowe Resources plc – September 2023 Presentation).*

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There is no guarantee the share price will trade at or near to the share price target valuation estimates quoted in this report at any time in the future, as this will depend upon on a number of factors for example prevailing sentiment towards the company, its sector, country of operations and project commodity being mined or developed, investor risk appetite and total amount of investor funds capable of being allocated towards this type of investment.

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

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