

Grängesberg Exploration Holding AB

Anglo American-deal provides significant validation and financing for ambitious growth plan

Johan Widmark | 2023-03-08 08:00

After the DFS for Dannemora in Dec 2022 showing an IRR of 27% after tax, GRANGEX has now signed a two-fold deal with global mining giant Anglo American. The deal includes a binding term sheet for an Offtake Agreement for Dannemora's high-grade (68%) low carbon footprint iron ore concentrate worth SEK 15bn (at today's price) over 11 years and a USD 10m upfront Royalty Agreement. This provides both a significant validation and immediate capital injection, effectively lowering the risk and thereby our discount rate. With an extended production period (11y), strong USD and revised cost and financing structure (taking plans for a larger financing into account), we now find support for a risk-adjusted fair value of SEK 72-94 per share in 12-24m.

Offtake and royalty deal with Anglo American

Through its wholly owned subsidiary Dannemora Iron AB, GRANGEX has secured a binding term sheet for an offtake agreement for the planned production of low carbon high-grade iron ore concentrate. With an estimated production period of 11 years and estimated production of 1.0Mt iron ore per year, the deal is worth around SEK 15bn, based on today's price level. The deal also includes a royalty agreement giving GRANGEX USD 10m upfront (next week) in exchange for a 2% royalty for the future revenues from Dannemora. This effectively secures a material portion of the pre-construction financing for the restart of the Dannemora mine, while also providing a significant stamp of approval to the feasibility of the project.

Strong case for low CO2 iron ore

GRANGEX has now entered the next phase, the construction phase, in producing a world class product with a minimal carbon footprint at Dannemora. It is worth noting that the DFS presented in December 2022 was based on recent quotations and price lists and thereby captured the high inflation during 2022 resulting in SEK 700m higher initial CAPEX (SEK 1.2bn to SEK 1.9bn) as well as 22% higher maintenance CAPEX and OPEX (55 USD/t) compared to the PFS, although this was counteracted by a 17% stronger USD/SEK-rate.

Mix of equity and debt

As the offtake agreement and royalty deal with Anglo American has markedly lowered both the operational and the financial risk in Dannemora, we now apply a 13% (15%) return requirement for equity investors, while maintaining an 8% interest for debt holders, netting a 7.4% WACC in our unlevered DCF approach.

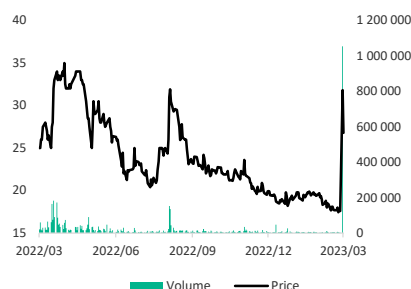
Now we expect the company to raise around SEK 300m from equity investors later this year, along with SEK 1.5bn in a mix of co-investments from strategic investors, project financing and secured debt, most likely involving additional capital from Anglo American. At this point however, it is still difficult to forecast what the final structure will look like, but it will likely affect the Levered Equity Value for GRANGEX's current shareholders. All in all, we still find support for an Unlevered Net Present Value largely in line with the NPV presented in the company's DFS.

Significant potential for further revaluation

With a structural long-term growth in demand for green low CO2 iron ore and a prolonged supply crisis following Russia's cut off from Europe we find a

Grängesberg Expl.

Fair Value	72 - 94
Current Price, SEK	26,80
Market Capitalisation (MSEK)	233
Number of Shares (Millions)	8,695
Net Debt (MSEK)	-44
Enterprise Value (MSEK)	189
Market	Nordic SME



strong fundamental case for both GRANGEX' projects. We now expect production start for the Apatite project sometime early/mid 2024, Final Investment Decision for Dannemora around winter 2023/24 and production start in H1'25.

We now find support for an Unlevered NPV for Dannemora of SEK 2.3bn after tax. Along with the Apatite project and Sala Bly, and reduced for project financing, this Unlevered approach gives a SEK 955m in Equity Value attributable to current shareholders. Applying a Levered DCF after tax approach, applying only the Cost of Equity (13%) as discount rate, this gives SEK 974m attributable to current shareholders. Using the midpoint of these two numbers and risk adjusted with an estimated probability of successfully of 65-85%, this provides support for a fair value of around SEK 630-820m or SEK 72-94 per share in 12-24m.

Timeline & probability adjusted value attributable to current shareholders

	2023				2024				2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Dannemora			Environ. Permit	Initiate construc.					Prod. start
Apatit project	DFS & Environ. permit application				Environ. Permit		Prod. start		
(A) NPV Unlevered (7.4%) MSEK				2 350					
(B) NPV Levered (13%) MSEK				869					
(C) New Equity				300					
(D) New Debt / Proj fin.				1 500					
(E) Apaptite project				397					
(F) Sala Bly				8					
(G) Existing shareholders' equity (Unlevered), MSEK				955			(A)-(C)-(D)+(E)+(F)		
(H) Existing shareholders' equity (Levered), MSEK				974			(B)-(C)+(E)+(F)		
Likelihood				65% - 85%					
Implied valuation, MSEK				630 - 820					
Implied value, per share, SEK				72 - 94					

Source: Emergers

Bullish outlook for Dannemora's product

In addition to the financing structure and discount rate, there are other pieces in our valuation model that can have a large impact on the value for current equity holders. One of these factors is the Iron Ore price. Considering that high-quality >67% Fe concentrate will be essential to facilitate the green transition, while only ~4% of global iron ore production is of >67% Fe grade, this will command a price premium compared to 62% and 65% Fe grade. And with the high-grade iron ore market segment expected to grow at an 8% CAGR, from 110Mt today to 750Mt in 2050, this premium is likely to expand in future.

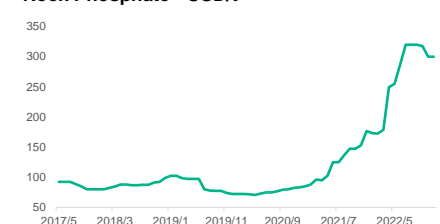
Iron Ore 62% Fe - USD per metric ton



Upwards reserve revision of the Apatite project

In December 2022, GRANGX also announced an increase of the mineral reserves in the Apatite project, by 24% to 3.5 Mt after tests of the under-water part of the tailings in the JanMatts dam. This will likely extend the production period from 2028/29 into 2031. The apatite project in Grängesberg is a recycling project where the old tailings from the iron ore production at the closed Grängesberg mine will be recycled to produce highly enriched apatite. Next step for the Apatite project is the DFS and environmental permit application, which we now expect in Q1'23. As for prices, the prolonged war in Ukraine and subsequent trade restrictions have resulted in an extension of the price peak in phosphate rock, with prices now parked north of 300 USD/t. For our valuation model however, we only include a small portion of this for the Apatite project.

Rock Phosphate - USD/t



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