

GRANGEX AB

Final regulatory hurdle cleared to materialize the world's first CO2-free iron ore mine

Johan Widmark | 2023-06-26 12:00

The Land and Environmental Court has now granted GRANGEX the permit for mining operations at Dannemora, meaning that no regulatory hurdles remains. Next steps are now to complete the financing, and continue the procurement and preparations for the start of construction in the autumn with a planned start of production in 2025. Along with the offtake agreement with Anglo American signed in March, GRANGEX has now taken two major steps to de-risk the case, which combined with a slight mix change in the upcoming SEK 1.9bn financing, motivate a hike in our fair value to SEK 80-150 (72-94) in 12-24 months.

Last regulatory hurdle cleared

Through its wholly owned subsidiary Dannemora Iron AB, GRANGEX has now, in less than a year from submitting the application, received approval for its environmental impact assessment and permit for mining and water operations at the Dannemora mine. As there were no reservations or supplements, there are no more regulatory hurdles to pass in order to start mining operations at Dannemora. This also means that the risk from an investor perspective has been reduced significantly.

Clear roadmap to production start in H1'25

With this announcement, GRANGEX now enters the construction phase where the key events will be to empty the mine of water, make room for the new underground crusher, and continue the procurement and preparations for the start of construction.

Simultaneously, GRANGEX will need to complete the financing for the construction phase. We now expect the company to raise another SEK 1.9bn in Q3'23 in a mix of SEK 500m in new equity and SEK 1400m in a mix of co-investments from strategic investors, project financing and secured debt. This is a slightly different volume and mix than the our previous estimate of SEK 1.8bn (SEK 300m in new equity and SEK 1500m in debt), after the SEK 100m capital injection from Anglo American.

At this point however, it is still uncertain 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. Given the completion of the financing during H2'23, we expect production start in H1'25.

Major de-risking motivate a hike in fair value

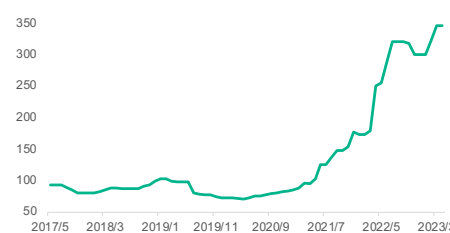
Looking at valuation potential for equity investors, we continue to find support for an Unlevered NPV for Dannemora of SEK 2.2bn after tax. With a 13% return requirement for equity investors, and 8% interest for debt holders, the updated mix gives a 8.1% (7.4%) WACC in our unlevered DCF approach. The Unlevered approach gives a SEK 690m in Equity Value attributable to current shareholders. Applying a Levered DCF after tax approach, using only the Cost of Equity (13%) as discount rate, this gives SEK 762m attributable to current shareholders.

Moreover, current iron ore prices suggest a price of USD 150+/t for 68% iron ore (USD 136/t for 65% plus USD 8 for each additional ppt), which is above ours and the company's USD 129/t model estimate. And with a strong structural support for rising prices for high grade iron ore, and SEK +650m in additional NPV for each USD +10 in iron ore prices above USD 129/t, we find considerable further valuation upside with rising prices. All in all, we now find support for a fair value of around SEK 80-150 (72-94) per share in 12-24m.

Iron Ore 62% Fe - USD per metric ton

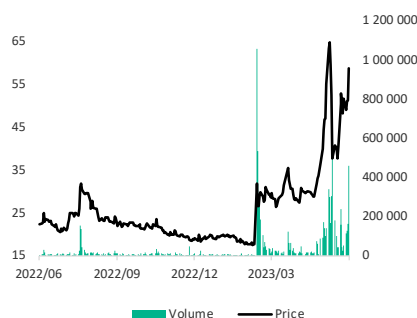


Rock Phosphate - USD/t



GRANGEX AB

Fair Value	80 - 150
Current Price, SEK	58,60
Market Capitalisation (MSEK)	510
Number of Shares (Millions)	8,695
Net Debt (MSEK)	-44
Enterprise Value (MSEK)	465
Market	Nordic SME



Timeline & probability adjusted value attributable to current shareholders

	2023		2024				2025	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Dannemora	Empty water		Initiate construc.				Prod. start	
Apatite project	DFS & Environ. permit applicati		Environ. Permit				Prod. start	
Iron Ore price	USD 129/t		USD 139/t					
(A) NPV Unlevered (8.1%) MSEK	2 185		2864					
(B) NPV Levered (13%) MSEK	857		1367					
(C) New Equity	500		500					
(D) New Debt / Proj fin.	1 400		1 400					
(E) Apatite project	397		397					
(F) Sala Bly	8		8					
(G) Existing shareholders' equity (Unlevered), MSEK	690		1 369				(A)-(C)-(D)+(E)+(F)	
(H) Existing shareholders' equity (Levered), MSEK	762		1 272				(B)-(C)+(E)+(F)	
Implied valuation, MSEK	690 - 760		1270 - 1370					
Implied value, per share, SEK	79 - 88		146 - 157					

Source: Emergers

Offtake and royalty deal with Anglo American

In March 2023, GRANGEX 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. The deal also included a royalty agreement giving GRANGEX USD 10m upfront in exchange for a 2% royalty for the future revenues from Dannemora. This effectively secured a material portion of the pre-construction financing, expected to finance the company until mid H2'23, while also providing a significant stamp of approval to the feasibility of the project.

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.

Upwards reserve revision of the Apatite project

In December 2022, GRANGEX 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 has been delayed compared to our previous expectation of 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.

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