

GRANGEX AB

Steep acceleration towards two permitted CO2-free iron ore projects

Johan Widmark | 2023-09-05 08:00

2023 has proven a pivotal year for GRANGEX. Soon after the environmental court's approval to restart Dannemora, GRANGEX announced the exclusive agreement to acquire Sydvaranger Mining AS, meaning that GRANGEX now stands on the verge of restarting two permitted iron ore projects. The open-pit Sydvaranger mine, currently in care and maintenance mode, is planned to produce an annual 4 Mton of high-grade, 68% fossil-free iron ore, with a 20 year life of mine. Price is set at USD 33m, while the most recent DFS shows a USD 550m Unlevered NPV (8%) for the asset. With an anticipated CAPEX per ton below that of Dannemora, a restart could be approximately 2.5 years away, slightly behind Dannemora.

Dannemora now in construction phase

After years in development mode, the environmental court approved the restart of Dannemora in June, meaning that Dannemora has entered the construction phase with water purification and drainage of the mine as first steps. An alliance has also been forged with Anglo American, ensuring a royalty agreement of USD 10 million and an 11-year sales pact valued approximately at 15 billion SEK. As Dannemora advances into its execution phase, GRANGEX reports a heightened interest from potential financiers, having garnered loan offers from numerous European banks.

Promising business case in Norway but much still unclear

The second pivotal change over the summer was the exclusive agreement to acquire Sydvaranger Mining AS, located in the northernmost part of Norway, consisting of a brownfield open-pit iron ore mine and a processing plant. The Sydvaranger mine dates back to the early 20th century but was forced into bankruptcy in 2015 by the then depressed iron ore prices. GRANGEX has agreed to acquire the mine for USD 33m from private investment fund Orion, that is closing its fund. Now in care and maintenance mode, the mine currently employs 29 persons looking after it.

With an estimated annual production of 4 Mton and a life of mine of 20 years, this project is 4x the size of Dannemora in terms of annual production and 7x in terms of total production. The most recent DFS however showed a USD 550m NPV (8%), which is only about 2x that of Dannemora (assuming pre-tax numbers for both). This is explained by the fact that Sydvaranger produced blast furnace concentrate. But GRANGEX's plans to invest to raise output quality to meet the requirements of fossil free DRI quality iron ore.

Passing last regulatory hurdle in Dannemora a major de-risking

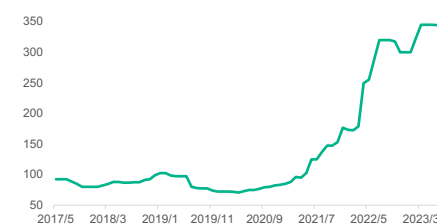
With the environmental permit for Dannemora passed, GRANGEX has now entered the construction and financing phase. We now expect a raise of SEK 1.9bn in a mix of equity and debt to be announced during H2'23 but note that the Sydvaranger deal will increase the capital need.

While we await more details on Sydvaranger or progress on the acquisition, we maintain our view of the existing business. 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 Unlevered DCF approach gives a SEK 775m in Equity Value attributable to current shareholders. If we instead apply a Levered DCF approach, using only the Cost of Equity (13%) as discount rate, this gives SEK 762m attributable to current shareholders. With considerable further valuation upside in rising prices, we now find support for a fair value of around SEK 80-150 per share.

Iron Ore 62% Fe - USD per metric ton

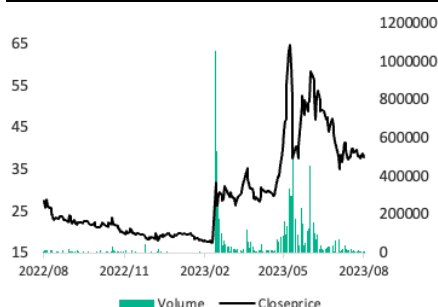


Rock Phosphate - USD/t



GRANGEX AB

Fair Value	80 - 150
Current Price, SEK	37,00
Market Capitalisation (MSEK)	322
Number of Shares (Millions)	8,695
Net Debt (MSEK)	-75
Enterprise Value (MSEK)	247
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
Apatit project		DFS & Environ. permit application				Environ. Permit		Prod. start
Iron Ore price		USD 129/t		USD 139/t				
(A) NPV Unlevered (8.1%) MSEK		2 270		2949				
(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		775		1 454			(A)-(C)-(D)+(E)+(F)	
(H) Existing shareholders' equity (Levered), MSEK		762		1 272			(B)-(C)+(E)+(F)	
Implied valuation, MSEK		760 - 780		1270 - 1450				
Implied value, per share, SEK		88 - 89		146 - 167				

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.

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