

# GRANGEX AB

## Pushing ahead with dual mines in the face of double delays

Johan Widmark | 2023-11-22 08:00

Facing delays in both financing and operational development, the current cash at SEK 43.6m means that GRANGEX must secure some short-term financing ahead of the major capital raise slated for Q4'24. We now look forward to the closing of the Sydvaranger acquisition before year end 2023, an updated PFS and the delayed commencement of drainage of Dannemora in Q1'24. Although financing is an increasingly pressing issue, the strong partnership with Anglo American bolsters our confidence that GRANGEX will obtain the necessary funds to unlock the valuation upside we foresee in Dannemora, and even more so in Sydvaranger, despite the delays. All while the rising iron ore prices continue to strengthen the case.

### Double delays

During Q3, GRANGEX has intensified the development of the Dannemora project, focusing on securing necessary drainage equipment and now expect to start drainage in Q1'23 (representing an approx. 6-month delay). The critical task now is completing project financing, as current working capital is insufficient for the planned activities over the next 12 months. Despite a weak macroeconomic climate, discussions with potential financiers are ongoing, and GRANGEX now expects to complete the major financing by Q2'24 at the earliest (also an approx. 6-month delay), with some short-term financial solution ahead of that. However, Anglo American's involvement in financing and as a future product buyer, should provide significant support to this process.

### Higher cost estimates

GRANGEX now expects to publish an updated DFS in Q1'23. In anticipation, we have modeled a 10% cost increase for both CAPEX and OPEX to reflect the past year's inflation. Regarding the planned acquisition of Sydvaranger, the company does not anticipate publishing an updated DFS until later in 2024. However, we observe that the available study, with cost estimates updated in May 2023 and based on an iron ore price around half of today's level, supports an NPV(8%) of USD 550m. Should GRANGEX succeed in upgrading production from blast furnace concentrate to meet the requirements for fossil-free DRI quality iron ore—a process step that incurs slightly higher costs but commands much better prices—the impact on NPV and returns could be substantial.

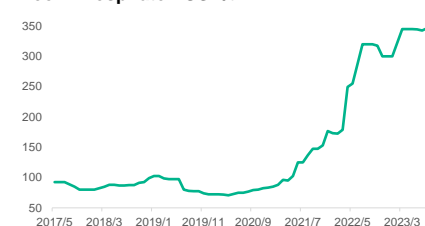
### Considerable valuation potential with Sydvaranger on top

While we choose not to incorporate Sydvaranger into our valuation just yet, we estimate that Dannemora justifies a capital raise of approximately SEK 2.1bn through a combination of equity and debt. With the continued positive development in iron ore prices (with 65% grade iron ore currently at USD 145 per ton), we find support for an Unlevered NPV for Dannemora of SEK 2.5bn after tax. This translates to an equity value of around SEK 800m attributable to current shareholders, or SEK 92 per share. Should all proceed as planned, the Sydvaranger acquisition will significantly increase the capital requirements and could substantially enhance our valuation calculations.

Iron Ore 62% Fe - USD per metric ton

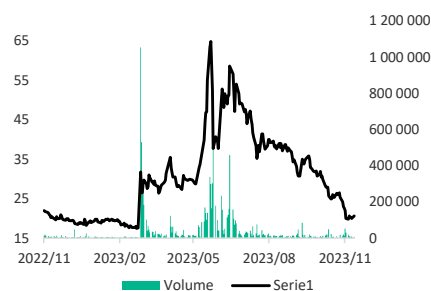


Rock Phosphate - USD/t



## GRANGEX AB

Current Price, SEK	19,9
Market Capitalisation (MSEK)	172,6
Number of Shares (Millions)	8,695
Net Debt (MSEK)	-43,6
Enterprise Value (MSEK)	129,0
Market	Nordic SME



## Timeline & Value attributable to current shareholders

	2023	2024		2025		2026	
	H2	H1	H2	H1	H2	H1	H2
Dannemora		Empty water	Initiate construc.		Production start		
Sydvaranger	Finalize Acquisition						Est. Production start
Apatit project		DFS & Environ. permit application		Environ. Permit	Production start		Prod. start
		<b>USDM</b>		<b>SEKM</b>			
(A) NPV Dannemora Unlevered (8.1%)		238		2 500			
(C) New Equity		60		630			
(D) New Debt / Proj fin.		140		1 470			
(E) Apatite project		38		397			
(F) Sala Bly		5		50			
(G) Existing shareholders' equity (Unlevered), MSEK		1 456		847		(A)-(C)-(D)+(E)+(F)	
Implied valuation, MSEK				800			
Implied value, per share, SEK				92			

Source: Emergers

### Acquisition of Sydvaranger a highly promising business case

In late June 2023, GRANGEX signed 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.

### 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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