

# GRANGEX AB

## Anglo American deal marks crucial step in transforming GRANGEX into leader in sustainable iron ore

Johan Widmark | 2024-01-08 09:30

Hours before the Christmas weekend, GRANGEX announced a Royalty and off-take agreement with Anglo American of USD 5m + 12.5m for the part-funding and development of the Sydvaranger Mine, along with a rights issue of SEK 81m. This is an important step forward for the venture into Sydvaranger, as evidenced by the 23% surge in the share price on the news. The capital injection will cover the first installment for Sydvaranger of USD 20m due on March 31<sup>st</sup>, 2024, but GRANGEX will need to raise additional capital to meet the price tag of USD 33m and the subsequent development expenses. While the case in Dannemora already offers good potential for shareholders, we await the updated Feasibility study to include Sydvaranger into our NPV, but note that the first data points from Sydvaranger indicate an even greater potential than in the previous DFS (i.e. an NPV well above USD 550m) when raising the output from blast furnace concentrate to direct reduction iron ore, and accounting for significantly higher iron ore prices. Interestingly, the separate funding of subsidiary Sydvaranger will provide a fresh data point on valuation of Sydvaranger already in Q1'24, most likely exceeding parent company GRANGEX' current market cap of SEK 200m.

### Teaming up with Anglo American for another deal

Following the announcement of the acquisition of Sydvaranger Mining AS, GRANGEX has now entered a Royalty Agreement with Anglo American, securing part-funding for this acquisition and future operations in which Anglo American will provide USD 17.5m in exchange for a life-of-mine off-take and royalty of 3% of the production from Sydvaranger. This is however conditional upon the subsidiary Grangex Sydvaranger securing an equivalent amount of financing by 31 March 2024, which will be done in a separate raise to strategic investors during Q1'24 (which will then provide a valuation of GRANGEX' holding in Sydvaranger). The deal also covers a future USD 50m contribution at yet unspecified conditions, for the restart of Sydvaranger. This partnership significantly reduces risks for GRANGEX and supports its strategy to supply ultra-high-grade magnetite concentrate for 'green steel' sectors in Europe and globally. An updated Feasibility Study will be completed within 12 months post-acquisition, which will also define a sustainable tailings disposal method acceptable to both parties.

### Summary of the rights issue

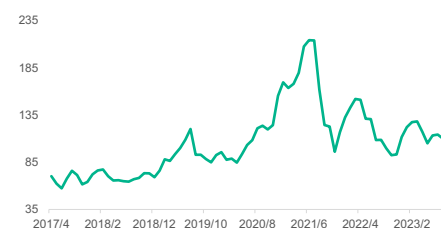
The announced rights issue of SEK 81.2m (5.8m shares) has a subscription price of SEK 14 per share. The issue is backed by senior executives and main shareholders with SEK 11m, and external guarantors with SEK 50m, covering 75% of the issue. Proceeds will be aimed at financing the Sydvaranger mine purchase/operation after repayment of a SEK 20m bridge financing. Subscription period runs from 5 to 19 February 2024. Complete terms will be published in a prospectus on 2 February 2024.

### Several milestones for investors to look forward to

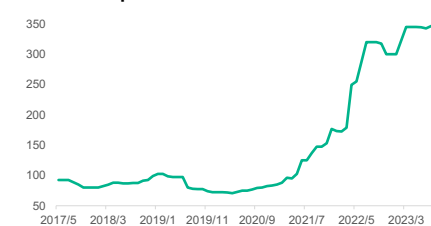
After the short-term financing round to be concluded in February we now look forward to:

- The separate funding of Sydvaranger in Q1'24 which will provide a valuation of GRANGEX' holding
- updated DFS and commencement of drainage of Dannemora in Q1'24
- the major capital raise slated for 2024
- updated DFS for Sydvaranger later in 2024
- Production start in Dannemora in H2'25
- Final Investment Decision for Sydvaranger in H1'26

Iron Ore 62% Fe - USD per metric ton

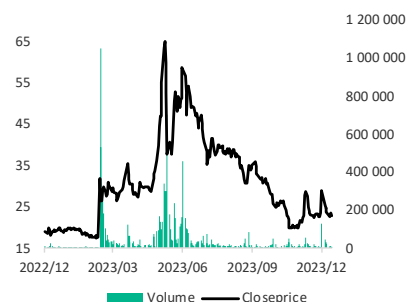


Rock Phosphate - USD/t



### GRANGEX AB

Current Price, SEK	22,9
Market Capitalisation (MSEK)	199,1
Number of Shares (Millions)	8,695
Net Debt (MSEK)	-43,6
Enterprise Value (MSEK)	155,5
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		First Installment of USD 20m	Updated Feasibility Study			Deferred payment USD 13m and Final Investment Decision	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) Apaptite project		38		397			
(F) Sala Bly		5		50			
(G) Existing shareholders' equity (Unlevered), MSE		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.

### 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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