

GRANGEX AB

Starting to fuel up: GRANGEX set for busy agenda in 2024

Johan Widmark | 2024-02-22 08:00

With the SEK 74 m (estimated 61m net) proceeds from the rights issue, we now look forward to the updated feasibility study initiated in December '23, the final project financing and investment decision for Dannemora, with subsequent commencement of drainage of the mine. For Sydvaranger, we await the updated Feasibility study, and the separate funding which 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 190m. All in all, we find several triggers in the coming 12-24 months that are likely to drive a revaluation of the depressed share.

Outcome of the rights issue

The preferential rights issue of shares, which concluded on February 19, 2024, raised a total of approximately SEK 74.3m before issuance costs. 34% was subscribed with the support of subscription rights, about 1% without the support of subscription rights, while the remaining up to 92% was subscribed by the underwriters. The number of shares thus increases from 8,694,861 to 13,999,146 shares, resulting in a dilution of approximately 38 percent. Assuming that underwrites takes compensation in cash (14% and 16% resp.), we estimate the total issuance cost to approx. SEK 13.7m.

Busy agenda for both Iron ore projects in 2024

In Dannemora, an updated feasibility study was initiated in December, which will define the total CAPEX, and thus the total financing requirement. Project financing and investment decision are planned to be completed during Q2'2024. The start of the mine drainage is planned to begin as soon as the investment decision and full project financing are in place, which represents a slight delay compared to our previous expectations. As a consequence we now postpone our expected production start to H1'2026.

As for Sydvaranger, GRANGEX announced in late Q4'23, a royalty and off-take agreement with Anglo American of USD 5m + 12.5m for the part-funding and development of the Sydvaranger Mine. A first purchase price of 20 MUSD (of which 1 MUSD has already been paid) will be paid by GRANGEX no later than March 31, 2024, meaning that GRANGEX will need to raise additional capital to meet the price tag of USD 33m and the subsequent development expenses. A deferred purchase price of 13 MUSD will be paid by GRANGEX at the final investment decision to resume operations in Sydvaranger, currently at the beginning of 2026. GRANGEX will also take over the current operating and maintenance costs for Sydvaranger from January 1, 2024.

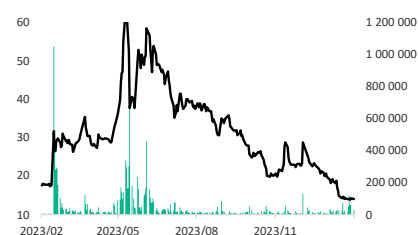
While the case in Dannemora already offers good potential for shareholders, we await the updated Feasibility study to include Sydvaranger into our NPV, but note that the first data points from Sydvaranger indicate an even greater potential than in the previous DFS (i.e. an NPV well above USD 550m) when 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 190m.

Improving backdrop for Apatite project

In 2023, the political framework for phosphate mining in Sweden improved with the EU's adoption of the Critical Raw Materials Act, which will be implemented in the legislation of all EU countries during 2024. In this legislation, raw phosphate is classified as a critical raw material, meaning that countries are required to extract 10 percent of their consumption from mines

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Current Price, SEK	13,8
Market Capitalisation (MSEK)	193,2
Number of Shares (Millions)	13,999
Net Debt (MSEK)	-95,5
Enterprise Value (MSEK)	97,7
Market	Nordic SME



and recycle 25 percent. As GRANGEX' apatite will be classified as recycled it is one of very few projects in Europe classified this way. We do however expect that it will be hard for the apatite project to compete with other portfolio projects for management's time and resources in 2024.

Several milestones for investors to look forward to

After the short-term financing round now completed, we 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 H1'24
- the major capital raise slated for 2024
- updated DFS for Sydvaranger later in 2024
- Production start in Dannemora in H1'26
- Final Investment Decision for Sydvaranger in H1'26

Timeline & Value attributable to current shareholders

	2023	2024		2025		2026	
	H2	H1	H2	H1	H2	H1	H2
Dannemora		Final Investment Decision	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
		USDM		SEKM			
(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				55			

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.

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.

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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Johan Widmark | Tel: 0739196641 | Mail: johan@emergers.se