

# GRANGEX AB

## Striking renegotiation of Sydvaranger acquisition setting GRANGEX up for an eventful 2024

Johan Widmark | 2024-05-08 10:00

With a striking renegotiation of the final purchase agreement for Sydvaranger, reducing the initial payment from USD 1+19m to USD 1+0.5m, GRANGEX succeeds in avoiding both diluting existing shareholders and bringing in equity partners in Grangex Sydvaranger AS, as was the previous plan. Combined with issue proceeds and the finalized USD 17.5m offtake agreement with Anglo American, GRANGEX is now set for the next step where a Scoping Study and Feasibility Study will determine a new mining plan and a new tailings disposal method. With an updated feasibility study for Dannemora expected before summer, and final project financing and investment decision soon thereafter, and new plan for Sydvaranger, we see several triggers in the coming 12-24 months that should drive a revaluation of the depressed share. Our NPVs include a high degree of uncertainty especially for Sydvaranger, but we still find support for a total rNPV-based fair value for today's equity holders upwards SEK 78 (55) per share.

### Favourable renegotiation of final terms for Sydvaranger

From initially expecting to pay USD 20m (USD 1m in 2023 and USD 19m in Q1'24), GRANGEX in the end managed to renegotiate the payment to USD 1.5m of which USD 1 was already paid and a mere USD 0.5m is now paid on closing. The deferred consideration of USD 13m to be paid on final investment decision (expected in 2026) remains unchanged. GRANGEX also assumes USD 25.5m in debt that matures on Dec 31<sup>st</sup>, 2025.

Soon thereafter, GRANGEX also announced the closing of the offtake agreement with Anglo American Plc. in which Anglo will purchase all life-of-mine ultra-high-grade magnetite concentrate production from the Sydvaranger Mine. Anglo has paid USD 17.5m for a royalty of 3% of revenue, while also committing to contribute USD 50m to finance the restart of Sydvaranger at final investment decision. Grangex Sydvaranger will immediately use USD 3m of the royalty proceeds to reduce the assumed debt to USD 22.5m, while the remaining USD 14.5m will be used to complete a new feasibility study and the current care and maintenance program at the Sydvaranger Mine, running at an annual cost of USD 5m.

The first step in GRANGEX's plan for Sydvaranger is to make a new optimal mining plan, confirm a direct reduction grade product specification as well as new tailings disposal method. Based on an existing feasibility study from 2020, the Sydvaranger Mine has the potential to produce up to 4 million tonnes per year of ultra-high-grade concentrate for a period of 25 years. But should GRANGEX utilize the current permitted sub-sea tailings disposal method this would cause Anglo to buyback the royalty agreement.

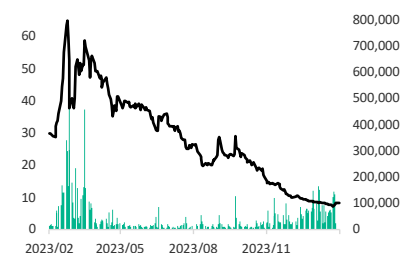
### Set for now, but major raise on the near term horizon

With an estimated SEK 61m net in proceeds from the rights issue in Q1, cash at SEK 34.5m at Dec 31<sup>st</sup>, 2023, the USD 0.5m payment for Sydvaranger, USD 17.5m royalty payment from Anglo American of which USD 3m has gone to reduce debt, we now estimate cash before operational costs to date at around SEK 240m. GRANGEX has already assumed responsibility for the USD 5m in care and maintenance costs at Sydvaranger since Jan 1<sup>st</sup>, 2024, and the remainder of proceeds are expected to fund the continued development of Dannemora and Sydvaranger.

In Dannemora, an updated feasibility study was initiated in December, which will define the total CAPEX, and thus the total financing requirement. Project

### GRANGEX AB

Current Price, SEK	9.4
Market Capitalisation (MSEK)	131.6
Number of Shares (Millions)	13.999
Net Debt (MSEK)	-6.2
Enterprise Value (MSEK)	125.4
Market	Nordic SME



financing and investment decision were previously planned to be completed during Q2'2024, but we now expect that to be somewhat delayed into H2'24. The start of the mine drainage is planned to begin as soon as the investment decision and full project financing are in place. As a consequence we now postpone our expected production start to H2'2026.

Along with the case in Dannemora that already offers good potential value for shareholders, we have now included Sydvaranger into our rNPV calculation, although we highlight that uncertainty in this side of the model is markedly higher, at least until the company presents an updated Feasibility study. That being said, 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.

### Key milestones for investors

After the short-term financing round now completed, we look forward to:

- updated DFS and commencement of drainage of Dannemora in H1'24
- updated DFS for Sydvaranger later in 2024
- the major capital raise slated for 2024
- Production start in Dannemora in 2026
- Final Investment Decision for Sydvaranger in H1'26

### Timeline & Value attributable to current shareholders

	2024		2025		2026		2027	
	H1	H2	H1	H2	H1	H2	H1	H2
Dannemora		Final Investment Decision	Empty water	Initiate construc.		Production start		
Sydvaranger	First Installment of USD 20m	Scoping Study	Updated Feasibility Study		Deferred payment USD 13m and Final Investment Decision		Est. Production start	
Apatit project		DFS & Environ. permit application		Environ. Permit		Prod. start		
		<b>USDM</b>	<b>SEKM</b>			<b>USDM</b>	<b>SEKM</b>	
(A) NPV Dannemora Unlevered (8.1%)		238	2,498	(F) NPV Sydvaranger Unlevered (8.2%)		1,108	11,636	
(B) New Equity Dannemora 30%		60	630	(G) New Equity Sydvaranger 36%		258	2,709	
(C) New Debt Dannemora 70%		140	1,470	(H) New Debt Sydvaranger 64%		462	4,851	
(D) NPV attributable to GRANGEX (Unlevered)			398	(I) NPV attributable to GRANGEX (Unlevered)			4,076	
Risk adjustment			90%	Risk adjustment			20%	
(E) rNPV Dannemora		34	358	(J) rNPV Sydvaranger		78	815	
(K) Apatite project						9	99	
(L) Sala Bly						5	50	
(M) Total rNPV, GRANGEX			(E+J+K+L)			126	1,322	
Existing Debt						23	236	
Implied Equity Value GRANGEX, MSEK							1,090	
Implied value, per share, SEK							78	

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. 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. The deal also covers a future USD 50m contribution at 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](mailto:johan@emergers.se)