GRANGEX AB

Emerging as Europe's top DR concentrate developer

Johan Widmark | 2024-08-23 08:00

With the dust settling after the acquisition of Sydvaranger and the updated DFS for Dannemora in Q2'24, the next steps for GRANGEX are now to complete a PFS (in H2'24) and DFS (mid 2025) for Sydvaranger and to complete the final project financing and investment decision for Dannemora. All in all, we see several triggers in the coming 12-24 months that should drive a revaluation of the share. Our NPV calculation includes a high degree of uncertainty, especially for Sydvaranger. However, with new insights into the balance sheet and debt following Sydvaranger's entry into the books, we've made a slight adjustment to the total rNPV-based fair value for today's equity holders, now set at SEK 70 (previously SEK 73) per share, contingent upon successfully securing financing for Dannemora during H2'24.

Strategic expansion through Sydvaranger acquisition

The acquisition of Norway's largest and Europe's third-largest iron ore mine, Sydvaranger in May has transformed GRANGEX into a significantly larger entity and solidified its position as the mining developer in Europe with the largest realistic short-term production potential of DR (Direct Reduction) concentrate. It has deepened GRANGEX's collaboration with Anglo American through an off-take agreement for 70-75 million tons of high-quality concentrate over approximately 20 years. Combined with the output from Dannemora, this brings the total estimated tonnage to 81-86 million tons.

As Europe's steel producers transition to green steelmaking, driven by the EU's increasing carbon taxes, the demand for GRANGEX's DR concentrate is poised to grow. Strategic goals for Sydvaranger include advancing the existing beneficiation process to produce high-quality DR concentrate, enabling the swiftest possible restart based on current infrastructure, and developing economically sustainable alternatives to minimize the existing, permitted fjord tailings deposit.

Clearer picture of the balance sheet impact of Sydvaranger

With Sydvaranger now in the books for the first time, the Q2 report shed some interesting light on the details of the deal, and the impact on the balance sheet. The royalty agreements with Anglo American are reported as a financial liability at amortized cost. Royalty payments will be made in line with the delivery and sale of iron ore during the first eleven years of planned production, with amortization calculated per ton of ore. An accounting interest is added to the liability, with the interest continuously reported in the income statement. However, no cash flow-impacting interest payment will be made. The same applies to the deferred payment and the loan to Orion, as well as the loan to DNB, where the interest is added to the liability, allowing the company's entire cash position of SEK 147m to be used for project development.

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

The GRANGEX share has had surprising difficulty to move closer to some kind of fair value, most likely due to the uncertainties associated with future financing needs and the sheer size of the numbers. This should adjust itself somewhat as development progresses. But that depends on the company's ability to secure financing for Dannemora during H2'24, which will be crucial for establishing investor confidence in the stock.

Key milestones for investors

As the the Sydvaranger deal has been closed and the updated DFS for Dannemora published, we now look forward to:

- Final investment decision and commencement of drainage of Dannemora in H2'24/H1'25

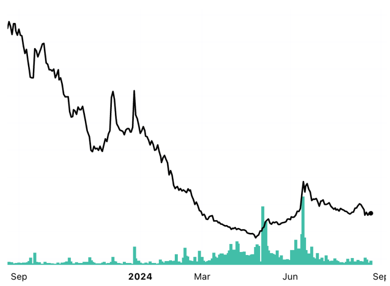
GRANGEX AB

Current Price, SEK	10.4
Market Capitalisation (MSEK)	145.8
Number of Shares (Millions)	14.016
Cash (MSEK)	146.5
Net IB Debt (MSEK)	286.4
Enterprise Value (MSEK)	432.1
Market	Nordic SME

Overview of Long-term Debt

SEKm	Q2'24
Royalty Agreement Anglo American	309.6
Deferred consideration Orion	137.9
Assumed loan Orion (20% acc. intr.)	246.0
Assumed loan DNB	48.9
Other	0.1
Total	**742.6**
Interest Bearing for NIBD	432.9
Cash	146.53
Net IB Debt	**286.4**

Source: GRANGEX, Emergers



- updated DFS for Sydvaranger later in 2024
- the major capital raise slated for 2024
- Production start in Dannemora in 2026/27
- Final Investment Decision for Sydvaranger

Timeline & Value attributable to current sharehoders

	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	PFS (Q4)		Updated Feasibility Study	Deferred payment USD 13m and Final Investment Decision		Production start	
Apatit project			DFS & Environ. permit application		Environ. Permit		Prod. start	

	USDM	SEKM		USDM	SEKM
(A) NPV Dannemora Unlevered (8%)	247	2,598	(F) NPV Syndvaranger Unlevered (8%	1,108	11,636
(B) New Equity	55	578	(G) Anglo Financing	50	525
(C) New Debt Dannemora	160	1,680	(H) New Equity Sydvaranger	208	2,184
			(I) New Debt Sydvaranger	462	4,851
(D) NPV attributable to GRANGEX (Un	32	341	(J) NPV attributable to GRANGEX (Un	900	4,076
Risk adjustment		90%	Risk adjustment		20%
(E) rNPV Dannemora	29	307	(K) rNPV Sydvaranger	78	815
(L) Apaptite project				9	99
(M) Sala Bly				5	50
(N) Total Equity NPV		(E+K+L+M)		121	1,271
Existing Debt				27	286
Implied Equity Value Existing Shareholders GRANGEX, MSEK					980
Implied value, per share, SEK					70

Source: Emergers

USD 160/t model price for 68% iron ore

In order to establish the Oxelösund Port FOB price, long-term freight rates from Brazil to China, freight rates from Brazil to Dannemora's customers and freight rates from Oxelösund Port are applied, resulting in a long-term average price for the Dannemora product of approximately USD 151/t on a CFR China basis. In our model we find we find it reasonable to account for a linear price premium from 65% up to 68%, but to also take volatility into account, we used a model Iron Ore price of USD 160/t.

Along with the case in Dannemora that already offers good potential value for shareholders, we also include Sydvaranger into our rNPV calculation, although we highlight that uncertainty in this side of the model is considerably 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 the higher iron ore prices.

Acquisition of Sydvaranger a highly promising business case

Sydvaranger Mining AS, located in the northernmost part of Norway, consists 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, with an additional step that could take quality up to 60-70%.

GRANGEX has entered a Royalty Agreement with Anglo American, securing part-funding for this acquisition and future operations in which Anglo American provided 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.

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