

# GRANGEX AB

## Emerging as Europe's top DR concentrate developer

Johan Widmark | 2024-09-09 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 planned production (11 years for Dannemora and 20 years for Sydvaranger), 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	8.9
Market Capitalisation (MSEK)	125.0
Number of Shares (Millions)	14.016
Cash (MSEK)	146.5
Net IB Debt (MSEK)	286.4
Enterprise Value (MSEK)	411.4
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
<b>Total</b>	<b>742.6</b>
Interest Bearing for NIBD	432.9

Cash	146.53
<b>Net IB Debt</b>	<b>286.4</b>

Source: GRANGEX, Emergers



- PEA/PFS study on the new conditions for Sydvaranger with a higher-quality product than before
- 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 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	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	
	<b>USDm</b>	<b>SEKm</b>					<b>USDm</b>	<b>SEKm</b>
(A) NPV Dannemora Unlevered (8%)	247	2,598		(F) NPV Sydvaranger 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		
(D) NPV attributable to GRANGEX (Un Risk adjustment)	32	341		(I) New Debt Sydvaranger	462	4,851		
(E) rNPV Dannemora	29	307		(J) NPV attributable to GRANGEX (Un Risk adjustment)	900	4,076		20%
(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 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 69-70%.

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.

## Disclaimer

### General disclaimer and copyright

This material is not intended to be financial advice. This material has been commissioned by the Company in question and prepared and issued by Emergers, in consideration of a fee payable by the Company. Emergers charges a standard fee for the production and broad dissemination of a detailed note following by regular update notes. Fees are paid upfront in cash without recourse. Emergers may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

**Accuracy of content:** All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained herein represent those of the research analyst at Emergers at the time of publication. The company has been given the opportunity to influence factual statements before publication, but forecasts, conclusions and valuation reasoning are Emergers' own. Forward-looking information or statements contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

**Exclusion of Liability:** To the fullest extent allowed by law, Emergers shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained in this material.

**No personalised advice:** The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Emergers' solicitation to effect, or attempt to effect, any transaction in a security. The securities described in this material may not be eligible for sale in all jurisdictions or to certain categories of investors. Investors are encouraged to seek additional information as well as consult a financial advisor prior to any investment decision.

**Investment in securities mentioned:** Emergers has a restrictive policy relating to personal dealing and conflicts of interest. Emergers does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Emergers may have a position in any or related securities mentioned in this report, subject to Emergers' policies on personal dealing and conflicts of interest.

Copyright: Copyright 2023 Incirrata AB (Emergers)

### United Kingdom

This document is prepared and provided by Emergers for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

### United States

Emergers relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Emergers does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

---

Johan Widmark | Tel: 0739196641 | Mail: [johan@emergers.se](mailto:johan@emergers.se)