

# GRANGEX AB

## Steady progress in Norway, but new headwind in Sweden prompt additional patience from investors

Johan Widmark | 2024-11-07 12:00

**While Sydvaranger is progressing as scheduled, with a PEA planned for Q1'25 and a DFS by mid-2025, Dannemora has encountered a new hurdle with power supply, introducing additional uncertainty and delays for both the final investment decision and project financing, as well as the commencement of essential site preparations. On top of this, iron ore prices have seen a subdued quarter but the company's positioning in high-grade iron ore production aligns with positive long-term market trends. While the case in GRANGEX may now require additional patience from investors, we maintain our view on the high revaluation potential in GRANGEX, with an rNPV-based fair value to SEK 70 per share, contingent on the resolution of these critical obstacles at Dannemora.**

### PEA in Q1 and DFS expected in mid-2025

GRANGEX's efforts to restart production at Norway's largest and Europe's third-largest iron ore mine, Sydvaranger, have progressed over the quarter. Following the completion of an Optimization Study for the Sydvaranger mine restart in Q3, a Preliminary Economic Assessment (PEA) is scheduled for January 2025. The PEA will provide an early assessment of the project's economic viability, based on estimated costs and revenues. The primary objectives are to explore the feasibility of a rapid restart of ore production, achieve positive cash flow with minimal investment, and produce an ore concentrate specifically suited for direct reduction processes. In addition, the assessment will examine possibilities for reducing the permitted volume of tailings deposited in the fjord outside Kirkenes. A full Feasibility Study for Sydvaranger is expected to follow in mid-2025.

### Unexpected power issue cause for concern

During the quarter, GRANGEX has encountered challenges regarding the power supply for Dannemora, as Vattenfall and Svenska Kraftnät, despite "intensive efforts" from GRANGEX, have not been able to confirm their ability to deliver the necessary power to the mine. This is a source of concern. Until GRANGEX gains clarity on this issue, it will be unable to proceed with project financing, which is why the procurement process for Dannemora has slowed down. Given that public institutions in Sweden are not known for moving quickly, except when it comes to imposing regulatory restrictions, we see a risk that this process may be prolonged, potentially positioning Sydvaranger as GRANGEX's first producing mine. For now, we have chosen to delay the timetable for Dannemora by six months.

### Short term headwind but long term support for iron ore

During the quarter, the 65% iron ore concentrate price index initially showed weak performance, with small premiums for high-grade concentrate due to low global steel demand and production surpluses. Fully integrated blast furnace steel mills have lowered demand for high-grade ore by using lower-grade iron ore. However, China's recent stimulus measures to boost housing and investment have positively impacted the iron ore price index, with sharp increases in the 65% and 67.5% concentrate indices. The European steel industry's transition and China's carbon reduction targets are expected to drive demand for high-grade ore, supporting a positive long-term price trend for Sydvaranger's and Dannemora's products.

### Pushing the major financing further down the line

The GRANGEX share has had surprising difficulty moving closer to fair value, primarily due to uncertainties surrounding the company's future financing needs and the sheer scale of these requirements. The new uncertainty

### GRANGEX AB

Current Price, SEK	10.2
Market Capitalisation (MSEK)	143.2
Number of Shares (Millions)	14.016
Cash (MSEK)	146.5
Net IB Debt (MSEK)	322.4
Enterprise Value (MSEK)	465.6
Market	Nordic SME



regarding power supply for Dannemora, which is in turn delaying the company's ability to secure major financing for the project, now seems to be forcing further postponements—effectively requiring investors to muster even more patience as they await a rebuild of confidence in the stock.

### Key milestones for investors

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

- Resolution of the power issue at Dannemora
- Final investment decision and commencement of drainage of Dannemora
- PEA study on the new conditions for Sydvaranger with a higher-quality product than before in Q1'25
- Updated DFS for Sydvaranger by mid 2025
- the major capital raise in 2025
- Production start in Dannemora now in 2027
- 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		PEA (Q1)	Updated Feasibility Study	Deferred payment USD 13m and Final Investment Decision			Production 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
				(I) New Debt Sydvaranger			462	4,851
(D) NPV attributable to GRANGEX (Unl Risk adjustment)	32	341		(J) NPV attributable to GRANGEX (Unl Risk adjustment)			900	4,076
(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

### Clearer picture of the balance sheet impact of Sydvaranger

With Sydvaranger now in the books for the first time, Q2 was the first report to 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, at SEK 110m at the end of Q3'24, to be used for project development.

### Overview of Long-term Debt

SEKm	Q2'24	Q3'24
Royalty Agreement Anglo American	309.6	309.6
Deferred consideration Orion	137.9	137.9
Assumed loan Orion (20% acc. intr.)	246.0	246.0
Assumed loan DNB	48.9	48.9
Other	0.1	0.1
<b>Total</b>	<b>742.6</b>	<b>742.6</b>
Interest Bearing for NIBD	432.9	432.9
Cash	146.53	110.52
<b>Net IB Debt</b>	<b>286.4</b>	<b>322.4</b>

Source: GRANGEX, Emergers

### **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.

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