



## Black Rock Mining Limited (BKT.ASX) – Speculative Buy

### Turning to mine development

Recommendation	SPECULATIVE BUY
Previous	N/A
Risk	Very High
Price Target	N/A
Previous Target	N/A
Share Price (A\$)	\$ 0.11
ASX Code	BKT
52 week low - high (A\$)	0.04-0.205
Capital structure	
Shares on Issue (M)	365
Market Cap (A\$M)	40
Net Cash/(Debt) (A\$M)	4
EV (A\$m)	37
Options on issue (M)	47
12mth Av Daily Volume ('000)	746
Board	
Mr Stephen Copulos	Non-Executive Chairman
Mr John de Vries	Managing Director
Mr Gabriel Chiappini	Non-Executive Director
Major Shareholders	
Copulos Group	24.6%
Share Price Graph	



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 The analyst owns no BKT shares.

**Foster Stockbroking is mandated to assist BKT with capital markets advisory services, and has received options as consideration for these services.**

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#### Event:

- Black Rock Mining Limited (BKT) release of PFS for its Mahenge graphite project; management change.

#### Analysis:

- Quality asset:** Total JORC Resource of 203Mt at Mahenge contains nearly **16Mt of graphite at an average grade of 7.8% TGC** (total graphite contained), and includes a high grade proportion of **38Mt at 9.9% TGC. JORC Ore Reserve of 48.3Mt at 8.7% TGC.** Initial 32 year LOM is less than half of the contained graphite.
- Excellent large flake distribution, coupled with high purity product:** nearly 68% of flakes in the resource are large size and above, with leading concentrate grades of 98% to 99%.
- Compelling project metrics:** Mahenge is a **high margin project**. BKT has the peer leading absolute percentage of large and jumbo flake sizes, along with sector leading concentrate grades of 98% to 99%, both of which should attract pricing premium in a tight market. On the opex side, bottom quartile LOM cash costs to port are US\$382/t, a function of low LOM strip ratio of 0.8:1, and high grade.
- Robust capex focus:** Lowest pre-production capex of 100ktpa+ production development projects. **US\$90M delivers phase one production of 83.3ktpa**, planned for 2019. Phase two is self-funded from cash flow to add another 83.3ktpa from 2021, for a **combined 167ktpa**. The project strikes the balance between the scale to attract investment against ability to fund the project.
- NPV<sub>10</sub> of US\$624M (post tax) based on realistic basket pricing of US\$1,241/t** (NPV<sub>10</sub> jumps to US\$1.1B using basket price of highest peer). Post tax unlevered IRR is 48.7%. Compares very favourably against peers, especially considering its low pre-production capex profile.
- There have been **management changes** to set the company up for development and production. John de Vries has recently joined as COO and has now been made interim CEO and appointed as an Executive Director, and brings deep experience in mine building and operational excellence, across a number of commodities and continents.
- Recently signed a **MOU with Japanese conglomerate Meiwa Corporation**, graphite product user, and not merely a graphite trading house, which participates in the global lithium-ion battery market.

#### Recommendation:

- We have a **Speculative Buy recommendation for BKT**, based on the company's low relative valuation against peers and value of the project.
- Catalysts** for the stock include: **PFS optimisation to include a third phase, DFS scheduled for completion within twelve months, associated financing, and commencement of the construction phase.**