



Black Rock Mining Ltd (BKT.ASX)

Tier 1 graphite asset progressing towards development

Event:

- We initiate coverage on Black Rock Mining Ltd (BKT).

Investment Highlights:

- BKT is an ASX listed graphite play with a high grade resource in Tanzania.**
- Multi generational JORC resource: 203Mt at 7.8% total graphitic carbon (TGC) with more than 15M tonnes contained graphite. JORC Reserve of 48.3Mt at 8.7% TGC declared, with 4M tonnes contained graphite.** Compared to East African peers, Mahenge ranks **above average in terms of product quality, operating costs, and pre-production capex**, as well as demonstrating outstanding metallurgy.
- Ability to serve premium graphite market.** A key positive is the purity and skew to large flake size, highly desirable attributes in the graphite market, with the potential to attract pricing premium. These attributes also give BKT flexibility to enter a range of graphite markets, including ultra pure end markets.
- Low capex:** lowest pre-production capex of US\$90M of East African peers with 100+ktpa production.
- Low operating costs** place it well in the **bottom quartile of the industry cost curve**. Estimated cash costs to port Dar Es Salaam of **US\$382/t**, a function of low strip and high grade.
- High margin:** at a conservative US\$1,241/t basket price assumption, cash margin is in the vicinity of ~US\$800/t, in the top quartile of East African peers.
- Attractive project metrics:** After tax, real NPV₁₀ of US\$624M with IRR of 48.2% from the recently released PFS.
- Electric vehicles (EVs) fuel premium graphite demand.** Graphite demand is forecast to grow 2-3x by 2025. The highest growth segment is batteries for electric vehicles, which is growing at >50% CAGR. While supply appears to be coming through to address this demand, demand for quality graphite will be supported because of the higher standard of technical specifications required for the growing electric vehicle segment.

Earnings and Valuation:

- We value BKT at \$0.25/share risked.** Our valuation is underpinned by DCF (NPV₁₀) for Mahenge assuming A\$125M pre-production capex, initial 1Mtpa throughput, and production of 83.3kt graphite, with a staggered second stage doubling throughput and production to 2Mtpa and 167kt graphite. First production is contemplated for 2QFY20. We have derived an unrisks, nominal NPV₁₀ for Mahenge of A\$974M. We forecast cash margin of over US\$800/t graphite based on a basket price of ca. US\$1,241/t graphite and C3 costs of US\$430/t.

Recommendation:

- We initiate coverage on BKT with a Speculative Buy recommendation with a 12-month price target of \$0.25/share.** Our target is based on Mahenge being further derisked in 12 months' time due to progress on DFS, permitting, financing, entering construction.

Recommendation	Speculative Buy
Previous	N/A
Risk	Very High
Price Target	\$0.25
Previous Target	N/A
Share Price (A\$)	\$ 0.075
ASX Code	BKT
52 week low - high (A\$)	0.042-0.205

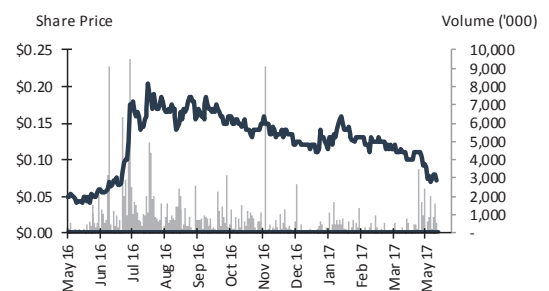
Capital structure	
Shares on Issue (M)	365
Market Cap (A\$M)	27
Net Cash/(Debt) (A\$M)	4
EV (A\$m)	24
Options on issue (M)	47
12mth Av Daily Volume ('000)	794

Forecasts	2017e	2018e	2019e	2020e
Revenue A\$M	0.0	0.0	0.0	0.0
EBITDA, A\$M	-1.6	-1.9	-2.4	-3.1
NPAT, A\$M	-1.6	-1.9	-2.4	-3.1
EPS, cps	-64.0	-46.7	-43.0	-16.5
PER, x	nm	nm	nm	nm
EV/EBITDA, x	nm	nm	nm	nm

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.