

# Bluejay Mining

## ERMA support endorses Dundas and underlines potential strategic importance of Greenland

Bluejay Mining PLC (“JAY”) has announced that it has received “official support” for the Dundas Ilmenite Project from the European Raw Materials Alliance (“ERMA”). Co-funded by the EU, the ERMA is a network of public and private sector organisations covering the raw materials supply chain, with a primary role of securing materials to support industrial ecosystems in the EU. Fulfilling ERMA’s qualification requirements is a seal of approval on the project and may unlock new marketing channels for the up to 190ktpa of Dundas’ ilmenite output which is not currently covered by the Master Distribution Agreement with a major Asian conglomerate signed in Dec’20, as well as potentially easing the financing process. Meanwhile, ilmenite prices remain very solid, presenting an upside risk to our long-term assumptions for Dundas. With the alleviation of global Covid-19 restrictions we anticipate BlueJay will be able to conduct a full field season in 2022 after a two-year hiatus, which should allow Bluejay to significantly advance Dundas towards a final investment decision, as well as the enticing prospect of first activities at Disko-Nuussuaq (“Disko”) under the newly-incorporated JV with KoBold Metals (“KoBold”).

### Fieldwork is expected to resume in 2022; Disko moving into focus with cashed-up partner

With the relaxation of Covid-19 restrictions allowing the first full field season in Greenland since 2019, we expect JAY will be able to accelerate progress at Dundas in 2022. We also note that the Disko JV between JAY and KoBold was incorporated on 1<sup>st</sup> Feb, with the latter having recently raised US\$192.5m in series-B funding. This bodes well for the upcoming field activities, which are currently in the final stages of planning. Under the terms of the JV, KoBold has committed to US\$3.4m in expenditure on geological and geophysical studies in 2022, and US\$11.4m on drilling or completion of 15 pre-agreed drill holes by the end of 2024. Decades of historical exploration at Disko has shown it to have the hallmarks of a globally-significant nickel-copper-cobalt-PGM magmatic massive sulphide system, analogous to Norilsk-Talnakh nickel district in Siberia, the most valuable single orebody of any type on earth. Two large conductive targets at Disko, identified by Bluejay as “drill-ready”, are comparable in footprint to Noril’sk-Talnakh ore bodies. A successful massive sulphide discovery at Disko could therefore be transformative for JAY’s investment case, with the JV likely dwarfing Dundas in terms of potential value.

### Ukraine conflict underlines the strategic importance of Greenland to RoW

Ilmenite prices have remained robust in early 2022 despite the geopolitical shockwaves from Russia’s invasion of Ukraine, with spot Chinese import prices up 5% YTD at US\$439/t. Indeed, feedstock supply in Europe could be materially impacted by the crisis, as we estimate Group DF’s operations in Ukraine account for ~5-6% of global output in terms of contained TiO<sub>2</sub> units. However, we believe the potential impact of trade sanctions against Russia on titanium feedstock demand is unlikely to be significant in the global context, with Russia accounting for ~2-3% of the world’s TiO<sub>2</sub> pigment output and adequate spare capacity ex-Russia to take up any slack. The implications for titanium sponge, a precursor to titanium metal used, amongst other applications, in aircraft engines, could be more profound, with Russia [a notable player in the industry](#). In our view, the Ukraine crisis underlines the strategic importance of Greenland, both geographically and in terms of raw material security supply for North America and Europe, which should weigh in JAY’s favour as evidenced by ERMA’s support.

### Valuation remains compelling

We model a long-term ilmenite price of US\$210/t (FOB), more conservative than the PFS input of US\$232/t and current spot at ~US\$344/t. On this basis we reach a Dec’22E NPV<sub>8%</sub> of US\$338m for Dundas, to which we apply a 0.8x multiple. We then add a further US\$60m for JAY’s earlier-stage exploration assets, including a conservative US\$30m for Disko. Adjusting for working capital and G&A, we derive a total Dec’22E risked SOTP of US\$331m or 26p/sh (+222% from current share price), a slight increase on our previous 24p/sh target as we have rolled our valuation date to Dec’22E from Dec’21E.

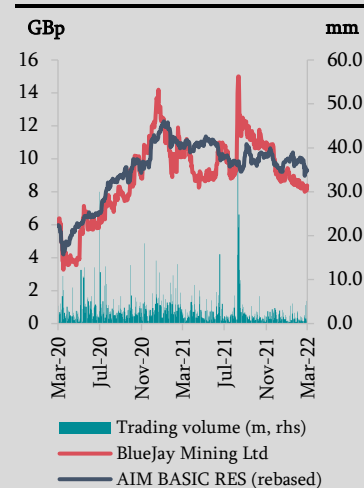
GICS Sector	Materials
Ticker	LN:JAY
Market cap 2-Mar-22 (£m)	79
Share price 2-Mar-22 (GBP)	8.1
Target price 31-Dec-22 (GBP)	26

**222%**

Upside from the current share price to our 26p/sh target

**340ktpa**

Current Master Distribution Agreement of 440ktpa total planned annual output



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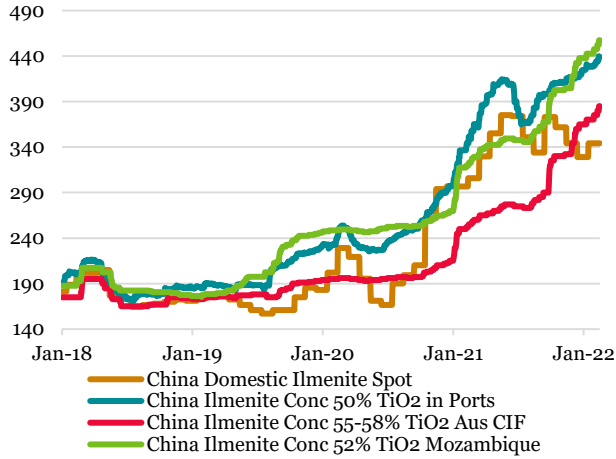
### **ERMA support a positive seal of approval on Dundas, helping to unlock funding**

Receiving official support from the ERMA provides another positive endorsement as JAY continues to make progress on key aspects of Dundas, gradually de-risking the project:

- Electronic nautical charts covering the key seaward approach were published in Jan'22 by the Danish Geodata Agency;
- The bulk sampling programme was finalised in Dec'21 allowing more final product samples to be sent to end customers for evaluation;
- A premier European investment bank was conditionally appointed in Nov'21 as lead arranger of the project financing, which may include cheap sources of debt from Export Credit Agencies, with ERMA support providing further credibility;
- Pre-construction works are planned at Dundas in 2022 to prepare for development alongside the project finance syndicate.

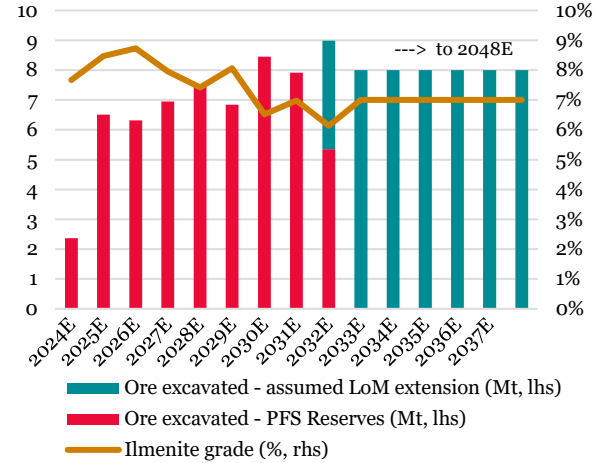
## Key Charts

### Ilmenite price indices



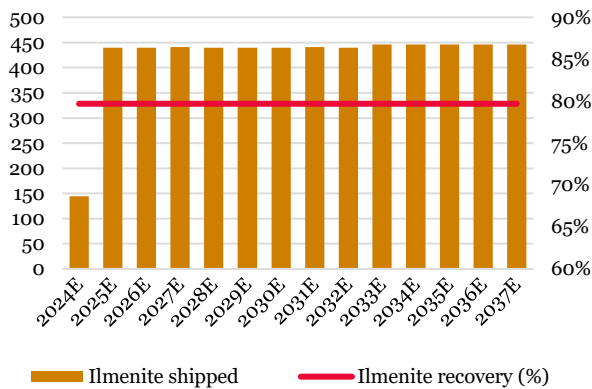
Source: Bloomberg

### Ore excavated vs Grade



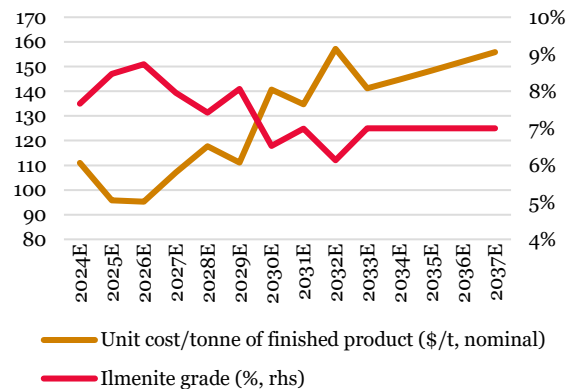
Source: Company reports, H&P estimates.

### Ilmenite tonnage shipped and recovery rate



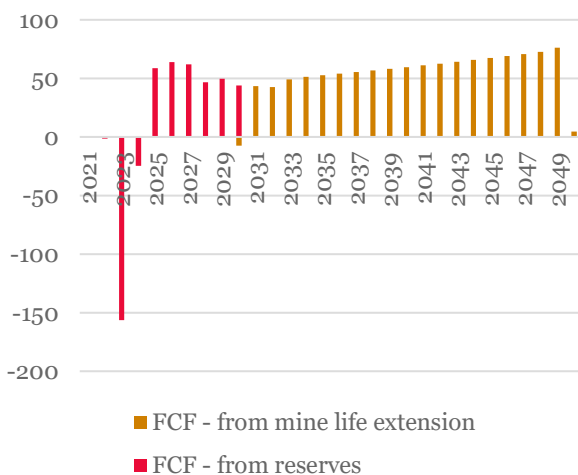
Source: Company reports, H&P estimates.

### Unit cost of finished product vs RoM ilmenite grade



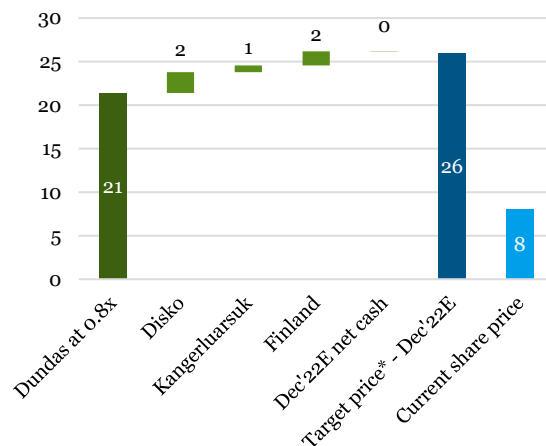
Source: Company reports, H&P estimates.

### Dundas FCF (US\$m)



Source: Company reports, H&P estimates.

### Price target derivation (GBP per share)



Source: H&P estimates, \*PT rounded to nearest 1p.

## Bluejay Summary Financials &amp; Valuation Metrics

Income statement						
Year end December		2020A	2021E	2022E	2023E	2024E
<b>Revenue</b>	£m	-	-	-	-	<b>26.4</b>
Cost of Sales	£m	-	-	-	0.0	(7.2)
Depreciation	£m	(0.6)	-	-	-	(7.6)
<b>Gross profit/(loss)</b>	£m	-	-	-	<b>0.0</b>	<b>19.2</b>
Other operating costs	£m	(2.5)	(0.0)	(0.0)	(2.0)	(5.1)
<b>Operating profit/(loss)</b>	£m	<b>(2.5)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(2.0)</b>	<b>14.1</b>
Finance income	£m	0.0	-	-	-	-
Finance Costs	£m	-	-	-	-	-
FX gains/losses	£m	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Other gains/(losses)	£m	0.0	0.0	0.0	0.0	(0.6)
<b>Profit/(Loss) before tax</b>	£m	<b>(2.5)</b>	<b>0.0</b>	<b>0.0</b>	<b>(2.0)</b>	<b>5.8</b>
Tax credit/(expense)	£m	0.2	-	-	-	-
<b>Net profit/(loss)</b>	£m	<b>(2.3)</b>	<b>0.0</b>	<b>0.0</b>	<b>(2.0)</b>	<b>5.8</b>
<b>EBITDA</b>	£m	<b>(2.5)</b>	<b>0.0</b>	<b>0.0</b>	<b>(2.0)</b>	<b>14.1</b>

Cash flow statement						
Year end December		2020A	2021E	2022E	2023E	2024E
Profit/(loss) before tax	£m	(2.5)	0.0	0.0	(2.0)	5.8
Depreciation	£m	(0.6)	-	-	-	(7.6)
Other non-cash items/adjustments	£m	1.6	0.2	0.2	0.2	15.4
<b>Operating cash inflow/(outflow)</b>	£m	<b>(1.5)</b>	<b>0.2</b>	<b>0.2</b>	<b>(1.8)</b>	<b>13.7</b>
Working capital change	£m	(0.0)	0.0	(1.0)	1.0	(1.3)
Net interest (paid)/received	£m	-	-	-	-	-
Tax (paid)/received	£m	0.2	-	-	-	-
<b>CFO</b>	£m	<b>(1.3)</b>	<b>0.3</b>	<b>(0.8)</b>	<b>(0.8)</b>	<b>12.4</b>
Additions to PPE	£m	(0.2)	-	-	(119.3)	(31.0)
Other	£m	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)
<b>CFI</b>	£m	<b>(2.7)</b>	<b>(2.5)</b>	<b>(2.5)</b>	<b>(121.8)</b>	<b>(33.5)</b>
Minimum debt repayments	£m	-	-	-	-	-
Other movement in net debt	£m	-	-	-	-	-
New equity issued	£m	-	-	-	-	-
Other	£m	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
<b>CFF</b>	£m	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>
<b>Net change in cash</b>	£m	<b>(4.4)</b>	<b>(2.4)</b>	<b>(3.4)</b>	<b>(122.7)</b>	<b>(21.3)</b>
FX impact on cash & equivalents	£m	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Beginning cash & equivalents	£m	10.3	5.9	3.5	0.1	(122.7)
<b>Ending cash &amp; equivalents</b>	£m	<b>5.9</b>	<b>3.5</b>	<b>0.1</b>	<b>(122.7)</b>	<b>(143.9)</b>

Balance sheet						
Year end December		2020A	2021E	2022E	2023E	2024E
Cash balance/(funding shortfall)	£m	5.9	3.5	0.1	(122.7)	(143.9)
Receivables	£m	1.5	0.8	1.0	-	2.2
Inventory	£m	-	-	-	-	-
Other	£m	0.1	0.1	0.1	0.1	0.1
<b>Current Assets</b>	£m	<b>7.5</b>	<b>4.4</b>	<b>1.2</b>	<b>(122.6)</b>	<b>(141.7)</b>
PPE	£m	2.6	2.6	2.6	121.9	145.3
Other	£m	26.8	29.3	31.9	34.5	37.1
<b>Fixed Assets</b>	£m	<b>29.3</b>	<b>31.9</b>	<b>34.5</b>	<b>156.3</b>	<b>182.3</b>
Payables	£m	1.2	0.8	-	(0.0)	0.9
Short Term Debt	£m	-	-	-	-	-
Other	£m	0.1	0.1	0.1	0.1	0.1
<b>Current Liabilities</b>	£m	<b>1.2</b>	<b>0.9</b>	<b>0.1</b>	<b>0.1</b>	<b>1.0</b>
Long term debt	£m	-	-	-	-	-
Other	£m	0.5	0.5	0.5	0.5	0.5
<b>Non Current Liabilities</b>	£m	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>
<b>Total Equity</b>	£m	<b>36.9</b>	<b>36.7</b>	<b>36.0</b>	<b>34.2</b>	<b>41.1</b>

Ratios and per share data						
Year end December		2020A	2021E	2022E	2023E	2024E
Wtd average shares in issue	m	971.6	971.6	971.6	971.6	971.6
Revenue growth	%		0%	0%	0%	0%
EBITDA margin	%					53%
ROCE	%	-10%	0%	0%	-1%	4%
ROE	%	-6%	0%	0%	-6%	15%
EPS	£p/sh	(0.2)	0.0	0.0	(0.2)	0.6
<b>Free cash flow</b>	£m	<b>(5.0)</b>	<b>0.0</b>	<b>(1.0)</b>	<b>(120.3)</b>	<b>(18.9)</b>
FCF/share	£m/sh	(0.01)	0.00	(0.00)	(0.12)	(0.02)
Net debt/equity	%	-17%	-10%	0%	364%	363%
<b>EV/EBITDA</b>	x	<b>(39.8)</b>	<b>4,767.0</b>	<b>4,928.5</b>	<b>(115.0)</b>	<b>17.7</b>
EV/Sales	x					9.4

Production volumes						
Year end December		2020A	2021E	2022E	2023E	2024E
Ilmenite	kt	-	-	-	-	145

Shipment volumes						
Year end December		2020A	2021E	2022E	2023E	2024E
Ilmenite	kt	-	-	-	-	145

Mineral sands price assumptions (nominal)						
Year end December		2020A	2021E	2022E	2023E	2024E
Ilmenite - spot	US\$/tonne	190	221	226	232	238
Ilmenite - realised	US\$/tonne			223	229	235

Cash Costs						
Year end December		2020A	2021E	2022E	2023E	2024E
Cash costs/t finished product	US\$/tonne	-	-	-	-	111
Total Cash Cost	US\$m	(3)	-	-	(3)	(16)
Cost of sales (P&L)	US\$m	-	-	-	0	(19)

Market cap, net debt & enterprise value						
Year end December		2020A	2021E	2022E	2023E	2024E
<b>Market Cap</b>	£m	<b>105.0</b>	<b>105.0</b>	<b>105.0</b>	<b>105.0</b>	<b>105.0</b>
Net Cash/(Debt)	£m	5.9	3.5	0.1	(122.7)	(143.9)
Rolling EV	£m	99.1	101.5	104.9	227.6	248.9

Valuation/ Price Target Derivation - Dec'19E			
Year end December		Value	Risked NAV
Dundas Ilmenite project	US\$m	338.0	0.8
Other projects	US\$m	60.0	1.0
Net Debt/ Cash	US\$m	0.1	0.1
<b>Total Value</b>	<b>US\$m</b>	<b>398.1</b>	<b>330.5</b>
Shares outstanding	m		971.6
<b>NPV/ Target Price per share</b>	<b>US cents</b>		<b>34.0</b>
USD/GBP FX	\$/£		1.30
<b>NPV/ Target Price per share*</b>	<b>GBP</b>		<b>26</b>
Current share price	GBP		8.1
Upside from current share price	%		222%

\*Rounded to nearest 1p

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