

25th October 2019

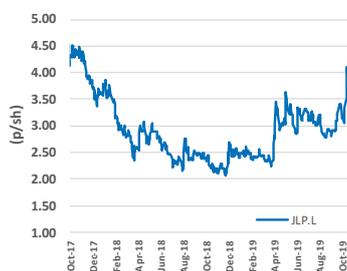
Sector: Mining

Commodities:

Chrome, PGMs, Zinc, Lead, Vanadium, Cobalt

Market data

Ticker	JLP
Price (p/sh)	4.15p
12m High (p/sh)	4.30p
12m Low (p/sh)	2.02p
Shares (m)	1855.3m
Mkt Cap (£m)	77.1m
Markets	AIM & JSX



Source: LSE

Description

Jubilee Metals Group plc ("Jubilee" or "JLP") is a Johannesburg and London based mine waste processing and metals recovery company listed on AIM (JLP) and the JSE (JBL). The company has operating assets in South Africa and has recently expanded its footprint to Zambia.

www.jubileemetalsgroup.com

Board & key management

Non-Exec Chairman	Colin Bird
Non-Exec Vice Chair	Dr Phosa
CEO	Leon Coetzer
NEED	Christopher Molefe
Technical Director	Evan Kirby

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Jubilee Metals Group

Taking control of Hercul

Jubilee has entered into an agreement with a subsidiary of one of the world's largest ferrochrome producers "NewCo" to acquire 100% of the rights to PGM earnings from both current and future tailings at Hercul. Additionally, JLP has acquired the rights to a further c.1Mt stockpile of PGM-rich material. A further agreement at NewCo's election could give JLP all chrome rights to the chrome contained in current and future tailings. The deal allows JLP to take full control of the PGMS and removes the previous profit share structure. If the company also acquires the chrome rights, this would be a game changer for the operation.

- ▶ **Background.** Hercul Ferrochrome Pty Ltd was previously the owner of one open pit and two underground mines and four ferrochrome furnaces in South Africa – the operation that provides tailings feed for JLP's PGM recovery plant. In September 2017, Hercul Ferrochrome entered voluntary Business Rescue, triggered when Mitsubishi, Hercul's major shareholder and lender did not renew covenants in order to provide a moratorium with regards to repaying the Mitsubishi loans. The Hercul operation remained in production and is being acquired by Samancor (ref: Business Rescue Plan update 23-10-2019), one of the world's largest ferrochrome producers. The result of this is a termination of the existing tailings agreement with Hercul and a new agreement with NewCo. We believe NewCo (K2018239983 South Africa Pty Ltd) to be a subsidiary of Samancor Chrome Limited, purchaser of the Hercul business.
- ▶ **100% PGMS.** The agreement allows JLP to acquire 100% of all rights to PGM earnings generated from current and future tailings being processed at JLP's recovery plant at Hercul. The total consideration for all PGMS contained in historical tailings is \$5.1m, settled by JLP's in cash.
- ▶ **How is this different from before?** Previously, JLP had a co-operation agreement with Hercul Ferrochrome akin to a profit share, whereby JLP retained 100% of earnings, but only until capex is paid back and JLP achieves a 30% return on capital. After this, a profit share kicks in, with 85% to Hercul and 15% to Jubilee meaning that attributable earnings to JLP from Hercul would drop off a cliff after this point. Clearly not ideal given that JLP's Hercul reprocessing plant has the potential to be a long-life asset. Originally, we did not expect this to happen until 2022 but given the recent high PGM basket prices and efficiencies at Hercul, we understand the 30% return point would be approaching in the next 12 months. Thus, the agreement comes at a prescient point and to be clear, this earnings split is now defunct and JLP will retain all revenue and earnings from PGMS.
- ▶ **Other benefits.** The deal gives JLP full control of tailings re-mining and thus the tailings feed supply at Hercul, mitigating the main risk (consistent supply of material) at the operation. This will give JLP the ability to alter/increase the feed rate as required, not being dependent on the Hercul operation to deliver material. On the back of this, JLP aims to increase the feed rate to 50ktpm from the current average of 42ktpm. Furthermore, we understand that NewCo is likely to start increasing the mining rate at Hercul and JLP will be able to garner more information such as which reef is being mined and prepare the plant accordingly.
- ▶ **More material.** JLP has also acquired the 100% rights to a further 1Mt stockpile of Hercul's PGM-rich material at surface located close to JLP's Windsor (PlatCro) chrome operations. This material can be processed immediately at JLP's Eland plant which JLP is pushing hard to take advantage of current PGM-basket price strength.
- ▶ **Strong partner.** Although JLP's Hercul operation has been continuing production unabated, having the up-stream operations at Hercul in business rescue created a period of flux. Samancor, the world's largest ferrochrome producer is a strong partner to underpin Hercul's future and may also open up further opportunities for JLP.
- ▶ **Chrome.** JLP may also acquire the rights to all chrome contained in current and future tailings at Hercul, at NewCo's election. This would be highly significant as presently, JLP processes the tailings and returns the chrome to Hercul. Thus, JLP currently incurs the opex for chrome separation but does not receive any chrome revenue. JLP estimates that this could add 8-10ktpa of chrome concentrate production to the group. If this option is implemented, it could also prompt JLP to incorporate its fine chrome recovery technology into the process which further boost chrome production and chrome revenue.

A landmark agreement for JLP which will likely transform the economics of Hercul, boosting revenue and earnings as well as providing significantly more control over tailings feed. We will incorporate the changes into our model once further details are known and republish forecasts once we have received updated guidance on all JLP's projects. Hercul will be renamed Inyoni.

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