**27th March 2020**

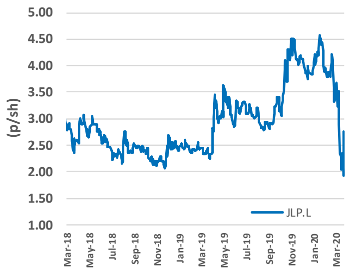
## Sector: Mining

**Commodities:**

Chrome, PGMs, Zinc, Lead, Vanadium, Cobalt

## Market data

| | |
|---|---|
| Ticker | JLP |
| Price (p/sh) | 2.63p |
| 12m High (p/sh) | 4.89p |
| 12m Low (p/sh) | 1.85p |
| Shares (m) | 2017.5m |
| Mkt Cap (£m) | 53.0m |
| 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 |
| NED | Christopher Molefe |
| Technical Director | Evan Kirby |

# Jubilee Metals Group

## Temporary *Corona* fog doesn't cloud the issue

**As foreshadowed in the robust operational results at the end of January, JLP's interims for the 6-months ending Dec-19 demonstrate a period of extraordinary progress, financial and operational traction and substantial investment in growth assets. Despite a backdrop of mixed head and tail winds, JLP's operational efficiency, unrivalled cost structure and commodity diversity has won through to deliver some fairly outstanding numbers. Such an improvement in year-on-year financial and operational metrics such as this, is rarely seen in the mining sector, but perhaps that's the point - JLP runs a high margin reprocessing model with minimal exposure to the labour intensive and cost-hungry upstream mining phase. The 21-day Covid-19 shut-down thus seems to come at a particularly frustrating time, just as JLP was starting to hit its stride. Nevertheless, JLP can rapidly re-start operations and is more robust than most to weather the storm, in our view.**

- **Step-change in headline numbers**. Y-o-Y numbers (6m ending Dec-19 vs 6m Dec-18) require a double-take. Revenue £25.4m ⇧205%, Adjusted EBITDA £8.7m ⇧208%, Attributable project earnings £9.8m ⇧143%, Group earnings £6.7m ⇧778%, Net Cash from ops £4.9m ⇧574%. EPS 0.35p/sh ⇧483%. At the **PGM operations**; production 21koz ⇧72%, revenue £16.3m ⇧130%, attributable earnings £9.7m ⇧137%. **Chrome operations**; concentrate production 186,249t ⇧11-fold, revenue £9.1m ⇧8-fold, attributable earnings £0.27m, up from £0.27m loss. The performance reflects considerable growth in both PGM ounces delivered and chrome concentrate produced, coupled with cost containment and a strong PGM basket price, tempered by lower chrome prices.

- **Full contribution not reflected.** The results still do not reflect a full period's contribution from Windsor PGMs (only reached stable production in Nov-19), Inyoni chrome (rights acquired in Nov-19) or Kabwe (copper production commenced in Dec-19). JLP has completed transactions and rapidly brought these new assets and business combination to account. This is one of JLP's key differentiators in our view, the ability to acquire, recapitalise, optimise, and rapidly bring new assets to bear. More good news, the final payment for acquisition of chrome and PGM rights at Inyoni was adjusted downwards by £2.2m based on certain PGM/chrome variables.

- **Strong position.** Net assets increased 49% from £59m to £88m. Balance sheet cash increased to £10.2m from £5.8m (but down from £18.6m at Jun-19) driven by £4.9m cash generated from operations and despite an investment intensive period (£17m) and repayment of £2.2m in external debt.

- **Crisis? Volatility? Or opportunity?** Whilst it may be a common misnomer that the Chinese character for "crisis" is a combination of "danger" and "opportunity", it may contain an element of truth for JLP. The company's projects are firmly lower quartile on the cost curve driven by a lean cost base with operational efficiency and recoveries that are hard to replicate by other operators, in our view. Furthermore, JLP has a robust business model and strong liquidity to deal with Covid-19 disruption. Despite commodity price volatility, the unprecedented fall-out of the Covid-19 pandemic and 21-day shutdown in South Africa (along with the rest of the world) may help to crystallise business and growth opportunities for JLP and the company is well placed to take advantage of current industry dynamics.

- **Yo-Yo time.** The PGM basket price appreciated during the period under review. Using indicative prill split and payability assumptions typical of Inyoni, we estimate the PGM basket price increased from c.$903/oz to c.$1,195/oz over the 6m ending Dec-19, a 32% increase. However, this is small beer compared to post-period where the bull run in PGMS continued until being temporarily de-railed by Covid-19. Have a look at this: Basket price on 10th March pre-Covid-19 impact $1,734/oz driven by Pd $2,525/oz and Rh $13,800/oz. 10 days later (*fortunately not 28 days later*!) the basket price on 20th March had fallen to $1,014/oz, down 42%. Back to spot pricing and the basket is back to c.$1,180/oz. This tells us two things; firstly, that JLP remains robust even at much lower PGM prices - PGM division unit cost was $519/oz for H2-19. Note this is higher than previous periods due to the addition of Windsor which adds a component of transport and tolling costs that are not incurred at Inyoni. Earnings per oz were recorded at $580/oz.

*Continued overleaf …*

## Analyst

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*Cont…* secondly, it tells us that on balance Q1-20 is likely to be another strong quarter even accounting for Covid-19 disruption at the end of March. On the chrome side of life, prices have started to tick up as Chinese buyers scrabble for supply as SA goes into lockdown. JLP produced positive earnings (albeit small) from the chrome division, even at this cyclical trough and we remain positive on the company's ability to leverage into any further upwards correction in chrome prices.

- **Covid-19 action.** In line with the 21-day lock-down announced by the South African government on 23rd March, Jubilee like every other miner in the country has put its operations on to care and maintenance. It is of course impossible to predict the trajectory of the virus and whether the lock-down could be extended. What is clearer though is that JLP has a robust financial position, a diversified commodity base and the ability to restart operations in very short timeframe. This may not be so easy for other operators in the country. Clearly the shutdown has a major production impact on JLP, i.e. Inyoni and Windsor each produce about 2koz PGMS per month. However, once operations restart, assets such as Windsor could become very important given the spare capacity at the Eland plant. This may provide an opportunity to push throughput at Windsor to mitigate some of the lost ground due to shut down. Work continues at Kabwe as operations in Zambia remain as yet unaffected by the virus.

**We view these interims as an excellent set of results. Whilst there remains a lot of moving parts, we are now starting to get a tantalising glimpse of JLP's true potential. The fruits of management's efforts over the last 12 months in particular is now starting to feed through to the bottom line. Although it is frustrating that disruption comes at this point in the company's progress, the loss of metal production for 3 weeks (or longer) is a global issue which we think should support prices when the world returns to "normal". JLP has the jump-start here with a low fixed cost base and the ability to re-start operations quickly. We await further guidance on restart, when this becomes available.**

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