28th January 2020

Jubilee Metals Group

What's that coming over the hill….

Jubilee has reported operational results for the half-year ending December 2019. Despite still being in a transitional phase, the numbers speak for themselves. H2 -19 Revenue of £25m is up 74% on H1-19 (£14.3M) but more startling is the 3-fold increase over the comparable y-o-y period H2-18 (£8.2m). H2-19 earnings of £8.2m are up 47% on H1-19 and over a 2-fold increase y-o-y. This reflects the considerable production growth in both PGM ounces delivered and chrome concentrate produced. The effect of the strong PGM basket price is clear in the PGM division, but perhaps what's even more impressive is the chrome division returned positive earnings despite being tempered by a considerably weaker chrome price. Yes, the key takeaway is a robust set of results, but results that still do not reflect full contribution from the new Windsor PGM operation or the newly "owned" chrome at Inyoni (prev. Hernic). We also hear a rumbling noise that's getting louder that's not part of these results at all - the potential monster of Kabwe with ramp-up imminent: Copper (Q1-2020) and Zinc (Q2 2020).

- **PGMS results H2-2019.** 21koz PGMs delivered, up 82% from H1-19 (11.5koz) and 72% y-o-y (H2-18 12.2koz). Revenue £16m, up 107% from H1 (£7.7m) and 126% y-o-y (H2-18 £7m). PGM earnings £8.1m up 100% from H1 (£4m). This reflects the strong appreciation in the PGM basket price and the significant increase in PGM ounces due to steady production at Inyoni and new production coming online at the Windsor PGM operations. Back-calculating from the PGM division results, the net basket price received in H2-19 was $991/oz compared to y-o-y $750/oz for H2-18. PGM unit costs have increased to $544/oz from $412/oz but this reflects the addition of a transport and reclamation cost at Windsor that Inyoni does not have, plus this includes an intercompany charge for PGM production. We understand that costs at Inyoni remain in the low to mid $400's per PGM ounce.

- **A lot has changed in 12 months:** Furthermore, PGM metals have continued to run amok and we estimate the current indicative basket price based on JLP's prill splits is now > $1,300/oz. Palladium is currently $2,281/oz, up 70% from $1,342 (Jan-19), Platinum is $984/oz, up 25% from $786/oz (Jan-19), Gold is $1,578/oz up 21% $1,303/oz. This is all eclipsed by rhodium with is currently $9,985/oz (11-year high driven by catalytic convertor use), up 4x from $2,495/oz a year ago. More good news for JLP is that its ore contains more Rh and Ru than typical Merensky reef ore. Happy Days.

- **Further PGM upside.** The PGM results include only a partial contribution from Windsor PGMs, commissioned in August but not reaching capacity until November. The November run rate of 5koz implies an annual run-rate of 60kozpa, the full impact of which will be seen in the H1-20 period. To capitalise on the buoyant basket price, processing capacity at Windsor has been increased to in excess of 100ktpm much higher than the originally planned 60ktpm (30kozpa PGMs). JLP also now has 100% of the rights to PGM earnings from current and future tailings at Inyoni, avoiding an onerous profit share that was looming. Finally, JLP completed a recapitalisation of the Inyoni feed systems (i.e. reclamation and hydromining) following the transition from Hernic to Samancor ownership which we understand will increase feed efficiency and stability for Hernic going forward.

- **Chrome results H2-19.** The chrome division returned positive earnings despite some considerable challenges during the period. Revenue was £8.8m up 33% from H1-19 (£6.5m) and 680% y-o-y (H2-18 £1.1m). 186kt of chrome concentrate was produced, up 13% over H1-19 and up 10x y-o-y. Total chrome feed processing capacity is now 145ktpm. Most importantly these results reflect less than 2 months contribution from Inyoni chrome where JLP now owns the chrome rights – full impact to be felt in H1-2020. Chrome earnings were £0.169m, down on £1.5m in H1-19 largely due to weak chrome prices (prices down 30% during the period) and the process of winding down legacy 3rd party low-margin ore tolling arrangements and replacing them with more lucrative ore acquisition agreements. Thus, even if chrome prices remain depressed, JLP should be able to capitalise on stronger margins for these contracts.

- **Bottom cycle chrome?** Chrome prices have been exceptionally weak. Indicative China UG2 42% prices are c.$135/t, Flip back two years and chrome prices were at $240/t or even higher at $440/t three years ago in late 2016. Our view is that it's starting to feel like the bottom of the chrome market. Short-term we see scope for higher prices on the back of re-stocking post Chinese New Year. *Continued overleaf …*

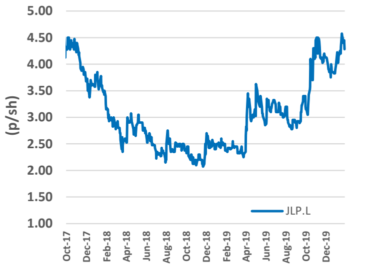
Sector: Mining

Commodities:

Chrome, PGMs, Zinc, Lead, Vanadium, Cobalt

Market data

Ticker	JLP
Price (p/sh)	4.45p
12m High (p/sh)	4.90p
12m Low (p/sh)	2.20p
Shares (m)	2017.5m
Mkt Cap (£m)	89.7m
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

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Non-Exec Vice Chair	Dr Phosa
CEO	Leon Coetzer
NED	Christopher Molefe
Technical Director	Evan Kirby

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*Cont…*Chrome prices appear to have stabilised and longer term we see little rationale for prices to stay at current depressed levels once stainless-steel demand returns and inventory levels normalise. However, the telling signs are mostly on the supply side. Eskom tariff hikes, SA's carbon tax and inefficient production from the major chrome/ferrochrome producers is prompting a raft of job cuts – at Glencore, at Samancor, at Merafe Ferrochrome etc. This could drastically affect the supply response with small producers rendered inefficient with no economies of scale, and major producers having to weather skinny margins and lower output. The market view is that current prices are not sustainable given the cost curve of the chrome industry. This positions JLP exceptionally well to benefit from any rebound from what we call the cyclical bottom of the market. Thus, we see two themes emerging, chrome industry consolidation and higher prices, both of which should benefit JLP. Why? Because prices may recover as JLP does the following ; **1.** Ramps up and fully brings Windsor chrome to account **2.** Takes control of chrome rights at Inyoni, **3.** Presses ahead with fine chrome recovery at all operations, **4.** Maintains a position as one of the industry's lowest cost producers (no mining cost) and **5.** Pursues further low cost chrome acquisitions.

- **Kabwe on starter's orders.** The copper refinery circuit was brought on-line to process historical copper tailings as well as 3rd party sourced run of mine material. The first high grade copper metal commenced production in December 2019 with the completion of the SX circuit. JLP reports that ramp up remains on track targeting to reach 250tpm of plated copper cathode during Q1 2020, before stepping up to reach 400tpm from Q2 2020 to take advantage of copper market sentiment. This should provide some early cashflow whilst the zinc and vanadium circuits. The zinc refinery circuit is on track to produce the first zinc concentrate during Q2 2020. Due to the drastic reduction in vanadium prices, the implementation schedule for the vanadium circuit is under review. Further clarity expected during Q1 2020.

Strong results from JLP despite a number of industry headwinds and a transitional period marked by new projects ramping up. Operationally and financially the company is going from strength to strength. However, the exciting aspect is not so much what the half-year operations update included, but more what it didn't include and what may be included in H1-2020. Specifically, it didn't include a full period from Windsor PGM, it didn't include a full period from newly optimised Windsor Chrome, it didn't include the full effects of 100% chrome and PGM rights at Inyoni, it doesn't include further implementation of fine chrome and it doesn't include Kabwe. Plus of course H1-2020 may bring further PGM price upside and chrome price recovery. We aim to re-initiate forecasting in due course.

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