



Blackstone

Batteries-Battery Sys / Switzerland

All focus shifts to the battery promise

Strategic Plan - 18/01/2021

Battery-related technological advancements and, hence, funding commitments, and favourable market sentiment for EVs and clean energy result in an upgrade for the battery division valuation. While delayed initiation for other divisions result in 2021 income estimates resetting materially lower, the markets are likely to focus on the group's battery virtues. Hence, the recommendation is maintained.

Fact

Despite the COVID-19 outbreak, since early 2020, Blackstone Resources' share price is up 283% vs. a 24% gain for AV's Metals and Mining universe. This staggering out-performance has materialised despite the commercial initiation of the group's mining-related assets witnessing (varying) delays.

Analysis

While COVID-19 has had a huge disruptive impact on the global economy, it has proven to be a blessing in disguise for clean energy-driven investment stories. This was a boon for Blackstone Resources – which is banking big on the success of its battery division. Fortunately, in 2020, Blackstone managed to attain a series of achievements in the battery division (summarised below).

2020 battery (R&D) milestones

According to management, the following breakthroughs were achieved in July 2020: 1/ the world's first battery cells with thick printed electrodes were successfully manufactured and tested; these printed batteries were claimed to have higher energy density (>20%) vs. traditional lithium-ion batteries; 2/ manufacturing was undertaken using environmentally-friendly electrodes vs. chemical electrodes – which have a risk of high inflammation – used in lithium-ion batteries; and 3/ hence, large-scale assembly line plans were implemented to produce the above-discussed batteries / cells at high speed. Apart from these achievements, the group also began testing the printing of solid-state battery cells. Then, in mid-September 2020, the group announced a breakthrough in its proprietary 3D-printing technology to print lithium ion solid-state batteries. Management claimed that this printing entails significantly lower costs and introduces high production flexibility, besides increasing energy density.

Unsurprisingly, these events were followed by various funding commitments coming to the fore. In October 2020, GEM Global made an equity commitment of CHF30m for implementing the commercial steps for the battery technology and related metals. Then, in December 2020, the Swiss Innovation Agency, i.e. Innosuisse, approved Blackstone's application for a grant to provide 50% funding for a CHF1.3m project. The beginning of 2021 was equally promising, with the group's battery project securing EU grants, followed by a CHF20m convertible loan facility valid for three years.

Management claims that the group's solid-state electrolyte innovation will play a key role in next-gen battery technology and, hence, could be a major disruptor in this space.

Re-emerging interest in clean energy metals



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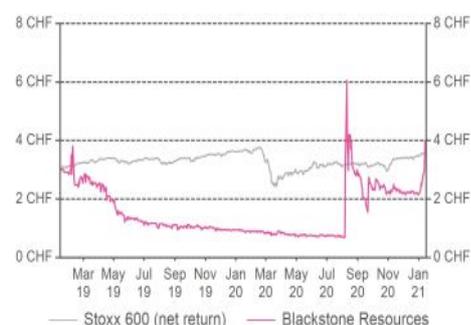
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This research has been commissioned and paid for by the company and is deemed to constitute an acceptable minor non-monetary benefit as defined in MiFID II

Buy Upside: 249%

Target Price (6 months)	CHF 12.5
Share Price	CHF 3.60
Market Cap. CHFM	154
Price Momentum	STRONG
Extremes 12Months	0.69 ▶ 6.05
Bloomberg	BLS SW Equity
Reuters	BLS.S

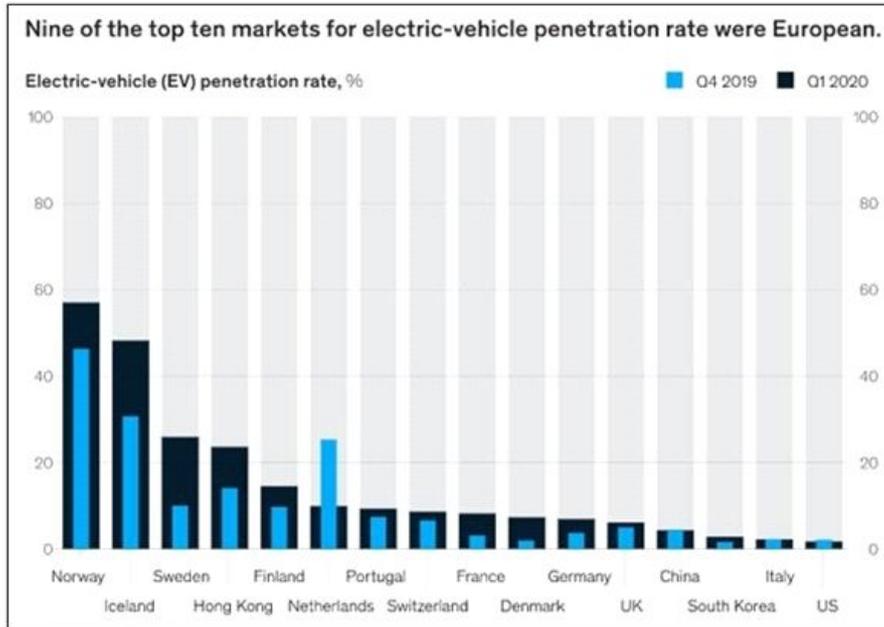

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PERF	1w	1m	3m	12m
Blackstone Resources	37.4%	60.7%	55.2%	291%
Capital Goods	-3.29%	5.72%	12.0%	17.2%
STOXX 600	-0.81%	2.97%	12.4%	-2.81%

Last updated: 18/01/2021	12/19A	12/20E	12/21E	12/22E
Adjusted P/E (x)	12.8	3.90	13.3	4.29
Dividend yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	-83.4	-35.6	7.03	2.84
Adjusted EPS (CHF)	0.13	0.38	0.27	0.84
Growth in EPS (%)	n/a	200	-29.6	211
Dividend (CHF)	0.00	0.00	0.00	0.00
Sales (CHFm)	0.00	0.00	302	509
EBITDA/R margin (%)	ns	ns	11.2	15.8
Attributable net profit (CHFm)	5.31	16.4	11.5	35.8
ROE (after tax) (%)	26.7	49.4	16.4	25.2
Gearing (%)	123	58.2	27.4	15.8

[Company Valuation](#) - [Company Financials](#)

Besides the benefit of material monetary easing and the growing expectation of a global economic recovery, most clean energy-driven metals have also benefited via an increasing focus on battery factory investments and most countries trying to reduce their dependence on the Asian battery giants. This change has also been backed by Europe emerging as a key electric vehicle (EV) market – even before the world was struck by COVID-19. Remember, in 2019, Europe's EV sales grew 44% vs. just 3% for China and a 12% decline in the US. And this momentum continued in early 2020 as well, making European countries amongst the best-penetrated EV markets globally.



Given such market sentiment, any progress on the battery (R&D) front is likely to outweigh any delay-related disappointment with respect to Blackstone's other divisions.

■ Impact

With the growing focus on the battery division, the following key changes have been implemented in our model: 1/ newer (battery) peers have been added in our relative valuation metrics; 2/ Blackstone has been re-positioned as a battery storage equivalent firm vs. its earlier categorisation as a miner-smelter-trader; and 3/ the battery division's valuation has been re-assessed (using GAV methodology) in our NAV, with the division's EV now resetting at CHF1.1bn. While the near-term performance estimates (particularly for 2021) reset materially lower – due to the delayed kick-start at the non-battery divisions, the upgrade in the battery division's outlook, primarily driven by NAV, results in our target price resetting c.67% higher. The positive recommendation is re-iterated.

Sales by Geography

Valuation Summary

Consolidated P&L Accounts

		12/19A	12/20E	12/21E
Sales	CHFM	0.00	0.00	302
Change in sales	%	0.00	0.00	ns
Change in staff costs	%	24.1	382	64.9
EBITDA	CHFM	-1.75	-3.68	33.7
EBITDA(R) margin	%	ns	ns	11.2
Depreciation	CHFM	-0.52	-1.32	-20.6
Underlying operating profit	CHFM	-2.27	-5.00	13.1
Operating profit (EBIT)	CHFM	5.45	17.2	13.1
Net financial expense	CHFM	-0.36	-0.57	-0.39
of which related to pensions	CHFM		0.00	0.00
Exceptional items & other	CHFM	-0.06	0.00	0.00
Corporate tax	CHFM	-0.11	0.00	-0.64
Equity associates	CHFM	0.00	0.00	0.00
Minority interests	CHFM	0.39	-0.26	-0.57
Adjusted attributable net profit	CHFM	5.37	16.4	11.5
NOPAT	CHFM	3.82	12.0	9.18

Cashflow Statement

EBITDA	CHFM	-1.75	-3.68	33.7
Change in WCR	CHFM	2.43	-1.17	-21.4
Actual div. received from equity holdi...	CHFM	0.00	0.00	0.00
Paid taxes	CHFM	-0.11	0.00	-0.64
Exceptional items	CHFM	0.06	0.00	0.00
Other operating cash flows	CHFM	-0.82	0.00	0.00
Total operating cash flows	CHFM	-0.19	-4.84	11.7
Capital expenditure	CHFM	-0.17	-7.39	-73.4
Total investment flows	CHFM	2.28	-7.39	-27.0
Net interest expense	CHFM	-0.36	-0.57	-0.39
Dividends (parent company)	CHFM	0.00	0.00	0.00
Dividends to minorities interests	CHFM	0.00	0.00	0.00
New shareholders' equity	CHFM	0.13	0.00	0.00
Total financial flows	CHFM	-1.30	13.2	15.7
Change in cash position	CHFM	0.80	0.98	0.48
Free cash flow (pre div.)	CHFM	-0.72	-12.8	-62.1

Per Share Data

No. of shares net of treas. stock (year...	Mio	42.7	42.7	42.7
Number of diluted shares (average)	Mio	42.1	42.7	42.7
Benchmark EPS	CHF	0.13	0.38	0.27
Restated NAV per share	CHF			
Net dividend per share	CHF	0.00	0.00	0.00

Benchmarks	Value	Weight	Largest comparables
DCF	CHF 4.12	40%	<ul style="list-style-type: none"> ● Umicore ■ Johnson Matthey ■ Boliden ■ Eramet
NAV/SOTP per share	CHF 24.6	40%	
P/E	CHF 7.20	5%	
EV/Ebitda	CHF 7.20	5%	
P/Book	CHF 7.20	5%	
Dividend Yield	CHF 0.00	5%	
TARGET PRICE	CHF 12.5	100%	

NAV/SOTP Calculation

Balance Sheet

		12/19A	12/20E	12/21E
Goodwill	CHFM	95.8	95.8	95.8
Total intangible	CHFM	95.8	95.8	95.8
Tangible fixed assets	CHFM	12.5	18.6	71.4
Financial fixed assets	CHFM	0.00	0.00	0.00
WCR	CHFM	-1.09	0.08	21.5
Other assets	CHFM	1.14	1.14	1.14
Total assets (net of short term liab.)	CHFM	109	116	190
Ordinary shareholders' equity	CHFM	25.0	41.3	99.2
Quasi Equity & Preferred	CHFM			
Minority interests	CHFM	48.1	48.4	48.9
Provisions for pensions	CHFM	0.07	0.02	0.03
Other provisions for risks and liabilities	CHFM	0.00	0.00	0.00
Total provisions for risks and liabilities	CHFM	0.07	0.02	0.03
Tax liabilities	CHFM	7.16	7.16	7.16
Other liabilities	CHFM			
Net debt (cash)	CHFM	28.7	19.3	35.0
Total liab. and shareholders' equity	CHFM	109	116	190

Capital Employed

Capital employed after depreciation	CHFM	107	114	189
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Profits & Risks Ratios

ROE (after tax)	%	26.7	49.4	16.4
ROCE	%	3.56	10.5	4.87
Gearing (at book value)	%	123	58.2	27.4
Adj. Net debt/EBITDA(R)	x	-16.4	-5.26	1.04
Interest cover (x)	x	-6.33	-8.70	34.0

Valuation Ratios

Reference P/E (benchmark)	x	12.8	3.90	13.3
Free cash flow yield	%	-1.03	-20.1	-40.4
P/Book	x	2.80	1.54	1.55
Dividend yield	%	0.00	0.00	0.00

EV Calculation

Market cap	CHFM	69.9	63.8	154
+ Provisions	CHFM	0.07	0.02	0.03
+ Unrecognised actuarial losses/(gains)	CHFM	0.00	0.00	0.00
+ Net debt at year end	CHFM	28.7	19.3	35.0
+ Leases debt equivalent	CHFM	0.00	0.00	0.00
- Financial fixed assets (fair value)	CHFM	0.59	0.59	0.59
+ Minority interests (fair value)	CHFM	48.1	48.4	48.9
= EV	CHFM	146	131	237
EV/EBITDA(R)	x	-83.4	-35.6	7.03
EV/Sales	x	ns	ns	0.78

Analyst : Varun Sikka, Changes to Forecasts : 18/01/2021.