



# Blackstone

Diversified Minerals / Switzerland

## Better-than-expected results

Earnings/sales releases - 04/05/2020

2019 ended on a good note for Blackstone Resources, with FY net attributable income of CHF5.31m vs. CHF22.6m loss in 2018. While the group's respective (growth) projects remain work-in-progress, the on-going COVID-19 uncertainties are a pertinent concern. However, Blackstone's positioning, targeting near-term cash flows from gold refining and battery R&D still in early stages – thereby benefiting from lower input costs, could render some operational support.

### Fact

Blackstone Resources ended 2019 on a good note, with full-year (FY) results marginally exceeding AV's expectations. Given that most of the assets/growth investments are yet to hit (meaningful) operations, total sales were minimal (c.CHF21k). However, the underlying operating loss came in at CHF2.25m vs. AV's estimate of CHF2.31m, despite depreciation & amortisation expenses of CHF0.52m – partly due to the Peruvian operations. The group realised CHF6.9m of one-time profit from an asset swap deal struck in the first half of 2019 (details discussed below), while interest expense dropped significantly (65%) to CHF0.34m. As a result, FY net attributable income came in at CHF5.31m (vs. CHF22.6m loss in 2018), compared to AV's estimate of CHF3.34m.

Blackstone ended 2019 with net debt of CHF28.7m, with Ulrich Ernst – CEO and largest shareholder (c.46% stake) – continuing to be a (key) lender (>CHF5m) of the firm.

### Analysis

#### 2019 round-up

In May-June 2019, Blackstone sold its Mongolian molybdenum asset (i.e. Troi Gobi) – though it secured 3% royalty on revenue rights, with an option (valid until the end of 2022) to repurchase the sold participation. In exchange, the group purchased an additional c.30% stake in South America Ltd. (SAI), thereby becoming SAI's majority owner (with c.51% stake). As a reminder, SAI owns a Peruvian gold refinery – which is expected to be a key source of Blackstone's near-term cash flows. Furthermore, the acquisition of lithium concessions in Chile and the execution of a JV with an Indonesian minerals company were some of the other key developments of 2019. With respect to Blackstone's battery R&D programme (based in Germany and Switzerland), the group has applied for various governments' subsidy programmes to fund its research initiatives.

#### Sudden COVID-19 jolt

Just when operationally things were falling in place for Blackstone Resources, the global economy is now faced with serious macro challenges (possibly worse than the 2008-09 crises) due to the COVID-19 outbreak. So far, despite billions of dollars worth of rescue packages being announced, the market sentiment remains bearish. Within AlphaValue's Metals & Mining, and Automotive sectors, apt proxies for Blackstone's businesses, over the past three months, combined 2020 net earnings expectation (for 34 corporates) in these sectors have been cut by an average c.47%, resulting in c.€39bn of net earnings estimates being wiped out.

According to IHS Markit, global vehicle sales in 2020 could fall by as much as



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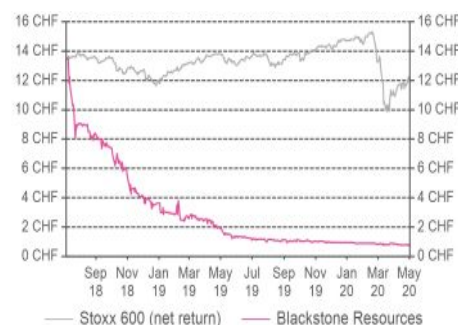
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### Buy Upside: 278%

Target Price (6 months)	CHF 2.87
Share Price	CHF 0.76
Market Cap. CHFM	32.5
Price Momentum	<b>NEGATIVE</b>
Extremes 12Months	0.72 ▶ 1.96
Bloomberg	BLS SW Equity
Reuters	BLS.S


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PERF	1w	1m	3m	12m
Blackstone Resources	-2.56%	-7.32%	-11.6%	-60.0%
Metals & Mining	1.69%	6.09%	-20.3%	-26.7%
STOXX 600	2.04%	6.24%	-18.1%	-13.1%

Last updated: 14/01/2020	12/18A	12/19E	12/20E	12/21E
Adjusted P/E (x)	ns	19.7	14.1	1.21
Dividend yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	ns	-38.0	12.1	1.13
Adjusted EPS (CHF)	-0.09	0.08	0.05	0.63
Growth in EPS (%)	n/a	n/a	-35.2	1,068
Dividend (CHF)	0.00	0.00	0.00	0.00
Sales (CHFm)	0.00	0.00	66.1	344
EBITDA/R margin (%)	ns	ns	7.32	15.4
Attributable net profit (CHFm)	-22.7	3.34	2.24	26.1
ROE (after tax) (%)	-90.0	12.1	5.39	33.1
Gearing (%)	210	82.1	87.2	33.9

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

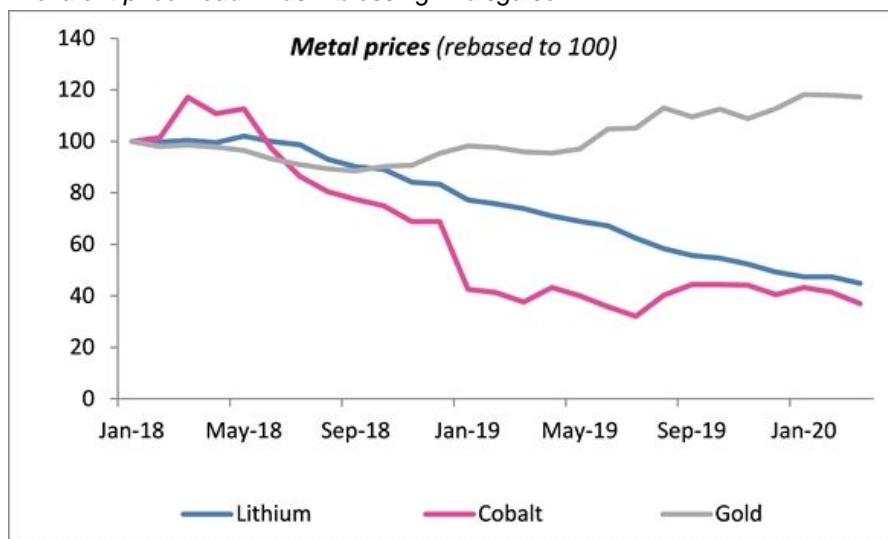
12%, with the US expected to fall 15%, followed by Europe (-14%) and China (-10%). As a reminder, new US car registrations in March 2020 were down 38% to 990k, while European sales almost halved (52%) to 853k and China sales had already plummeted 82% to 224k in February 2020 – as the virus infected the mainland region first, before recovery began in the following month. Unsurprisingly, talks of spiralling unemployment, bankruptcies and state-sponsored bailouts are regathering momentum. With dearth cheap oil, would (EV-driven) clean environment initiatives remain the respective governments' top-priority?

At least, not in the immediate term. With almost the entire world being locked down and who knows until when, it is very unlikely that EV sales won't plummet. Nevertheless, it would be too far-fetched to assume that the EV story is dead forever, especially given that massive state and corporate investments have been made (over the years) in this space, thereby increasing the (emerging) sector's systematic importance.

### Is there a ray of hope?

For an emerging player like Blackstone in the battery (material) industry, the prevalent downturn perhaps provides reasonable lead-time to develop scaleable and energy-efficient batteries. Moreover, materially lower prices of key battery metals (like cobalt and lithium) could instead provide a level-playing field (in input cost terms) for new entrants. And, until any battery-related R&D success is attained, Blackstone can benefit from the panic-driven gold price (trading at 8-year high of >\$1,700/oz) tailwinds – given the early-stage cash flows expected from Blackstone's Peruvian gold refinery.

*Prevalent price headwinds – blessing in disguise*



Source – Bloomberg

### ■ Impact

Our model is under review as we incorporate the impact of the 2019 results and add a new forecast year, i.e. 2022. Taking into consideration the tough macro context and downgrades across sectors, our estimates should be revised downwards. However, given the near-term gold refining benefits, and (long-term) prospects for battery remaining intact, the recommendation is likely to be maintained.

## Sales by Geography

## Valuation Summary

### Consolidated P&L Accounts

		12/18A	12/19E	12/20E
Sales	CHFM	0.00	0.00	66.1
Change in sales	%	0.00	0.00	ns
Change in staff costs	%	849	182	117
EBITDA	CHFM	-1.76	-2.31	4.84
<b>EBITDA(R) margin</b>	<b>%</b>	<b>ns</b>	<b>ns</b>	<b>7.32</b>
Depreciation	CHFM	-0.05	0.00	-1.32
Underlying operating profit	CHFM	-1.82	-2.31	3.52
<b>Operating profit (EBIT)</b>	<b>CHFM</b>	<b>-1.82</b>	<b>4.43</b>	<b>3.52</b>
Net financial expense	CHFM	-1.25	-0.98	-1.06
of which related to pensions	CHFM		0.00	-0.01
Exceptional items & other	CHFM	-18.8	-0.11	0.00
Corporate tax	CHFM	0.00	0.00	0.00
Equity associates	CHFM	-0.79	0.00	0.00
Minority interests	CHFM	-0.04	0.00	-0.23
<b>Adjusted attributable net profit</b>	<b>CHFM</b>	<b>-3.90</b>	<b>3.45</b>	<b>2.24</b>
NOPAT	CHFM	-2.06	3.11	2.47

### Cashflow Statement

		12/18A	12/19E	12/20E
EBITDA	CHFM	-1.76	-2.31	4.84
Change in WCR	CHFM	0.28	0.00	-3.50
Actual div. received from equity holdi...	CHFM	0.00	0.00	0.00
Paid taxes	CHFM	0.00	0.00	0.00
Exceptional items	CHFM	18.8	0.11	0.00
Other operating cash flows	CHFM	-18.6	0.06	0.00
Total operating cash flows	CHFM	-1.28	-2.13	1.34
Capital expenditure	CHFM	-0.32	0.00	-7.39
Total investment flows	CHFM	-2.66	2.22	-7.39
Net interest expense	CHFM	-1.25	-0.98	-1.06
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	-0.09	0.00	0.00
Total financial flows	CHFM	0.10	4.57	5.08
Change in cash position	CHFM	-3.70	4.66	-0.97
<b>Free cash flow (pre div.)</b>	<b>CHFM</b>	<b>-2.85</b>	<b>-3.11</b>	<b>-7.10</b>

### Per Share Data

		12/18A	12/19E	12/20E
No. of shares net of treas. stock (year...	Mio	41.5	41.5	41.5
Number of diluted shares (average)	Mio	41.8	41.5	41.5
<b>Benchmark EPS</b>	<b>CHF</b>	<b>-0.09</b>	<b>0.08</b>	<b>0.05</b>
Restated NAV per share	CHF			
<b>Net dividend per share</b>	<b>CHF</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

Benchmarks	Value	Weight	Largest comparables
DCF	CHF 2.53	35%	■ Umicore
NAV/SOTP per share	CHF 7.55	20%	■ Johnson Matthey
EV/Ebitda	CHF 1.37	20%	■ Boliden
P/E	CHF 1.52	10%	■ Anglo American
Dividend Yield	CHF 0.00	10%	■ Eramet
P/Book	CHF 0.98	5%	■ Glencore
TARGET PRICE	CHF 2.87	100%	

### NAV/SOTP Calculation

### Balance Sheet

		12/18A	12/19E	12/20E
Goodwill	CHFM	0.00	36.5	36.5
Total intangible	CHFM	0.00	36.5	36.5
Tangible fixed assets	CHFM	23.1	23.6	29.7
Financial fixed assets	CHFM	19.6	0.00	0.00
WCR	CHFM	-0.13	-0.13	3.37
Other assets	CHFM	0.06	0.00	0.00
Total assets (net of short term liab.)	CHFM	47.6	62.8	72.3
<b>Ordinary shareholders' equity</b>	<b>CHFM</b>	<b>14.8</b>	<b>40.4</b>	<b>42.6</b>
Quasi Equity & Preferred	CHFM			
Minority interests	CHFM	-0.09	-11.4	-11.2
Provisions for pensions	CHFM	0.12	0.15	0.22
Other provisions for risks and liabilities	CHFM	0.00	0.00	0.00
Total provisions for risks and liabilities	CHFM	0.12	0.15	0.22
Tax liabilities	CHFM			
Other liabilities	CHFM			
<b>Net debt (cash)</b>	<b>CHFM</b>	<b>32.7</b>	<b>33.6</b>	<b>40.7</b>
Total liab. and shareholders' equity	CHFM	47.6	62.8	72.3

### Capital Employed

		12/18A	12/19E	12/20E
Capital employed after depreciation	CHFM	42.6	60.0	69.6

### Profits & Risks Ratios

		12/18A	12/19E	12/20E
<b>ROE (after tax)</b>	<b>%</b>	<b>-90.0</b>	<b>12.1</b>	<b>5.39</b>
ROCE	%	-4.85	5.18	3.55
<b>Gearing (at book value)</b>	<b>%</b>	<b>210</b>	<b>82.1</b>	<b>87.2</b>
Adj. Net debt/EBITDA(R)	x	-18.6	-14.6	8.41
Interest cover (x)	x	-1.45	-2.36	3.36

### Valuation Ratios

		12/18A	12/19E	12/20E
<b>Reference P/E (benchmark)</b>	<b>x</b>	<b>ns</b>	<b>19.7</b>	<b>14.1</b>
Free cash flow yield	%	-1.00	-4.58	-22.5
P/Book	x	19.3	1.68	0.74
<b>Dividend yield</b>	<b>%</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

### EV Calculation

		12/18A	12/19E	12/20E
Market cap	CHFM	286	68.0	31.5
+ Provisions	CHFM	0.12	0.15	0.22
+ Unrecognised actuarial losses/(gains)	CHFM	0.00	0.00	0.00
+ Net debt at year end	CHFM	32.7	33.6	40.7
+ Leases debt equivalent	CHFM	0.00	0.00	0.00
- Financial fixed assets (fair value)	CHFM	4.97	2.75	2.75
+ Minority interests (fair value)	CHFM	-0.09	-11.4	-11.2
= EV	CHFM	314	87.5	58.5
<b>EV/EBITDA(R)</b>	<b>x</b>	<b>ns</b>	<b>-38.0</b>	<b>12.1</b>
EV/Sales	x	ns	ns	0.88

Analyst : Varun Sikka, Changes to Forecasts : 14/01/2020.