



# Blackstone

Diversified Minerals / Switzerland

## An intriguing battery (materials) play, although execution is the key

Initiation cov. - 14/01/2020

**Blackstone Resources should soon start benefiting, in cash-flow terms, from the operational start of its mining, smelting and trading assets. While the group, in 2019, made an interesting bet in (EV) battery research and manufacturing, with the intention of leveraging its mining exposure to key battery materials, successful execution of business plans (which are in varying stages of implementation) remains the key.**

### Recommendation and upside

We are initiating coverage of Blackstone Resources AG (market cap: c.CHF40m and free float of 25%) with a 'BUY' recommendation and a target price of CHF2.57 per share (177% upside). Our upside is driven by the group's: 1/ growing mining exposure to key battery materials; 2/ near-term cash-flow cushion to be rendered by precious metals; and 3/ a strategically well-aligned (though ambitious) foray into battery research and manufacturing. With battery materials and automakers coming under immense (pricing) pressure during 2018-19, and the global electric vehicle (EV) battery market also becoming increasingly competitive, management's efforts to set up a trading venture should help bring the much-needed business stability. Moreover, the EU's increasing focus on providing support for battery-related R&D should ensure that funding (via grants) is made available to home-grown companies.

### Businesses & Trends

Blackstone Resources is a Swiss-incorporated metals and mining company, with ownership interests spanning across commodities and geographies, and a presence across the value chain – operations ranging from mining to refining and trading activities. Now, with the global EV revolution and clean energy demand increasingly gathering momentum, Blackstone plans to make a €200m investment into research and development (R&D) of batteries, thereby leveraging its mining exposure to key battery materials. Despite being an early entrant in the battery industry, Blackstone's patented 3D-printing process to manufacture (more-efficient) solid-state batteries, if proven to be successful and scalable, could be a game-changer. Management claims that its 3D-printing process can result in capex savings of c.70% and c.30% lower metal consumption. However, all is not hunky dory as printing batteries is now common research in European laboratories. Moreover, given the financial strength of battery majors, which have/are pumped/pumping in billions of dollars into R&D, Blackstone seems ambitious. But, to the group's credit, given its smaller size and patented multilayer printing process, it may have the flexibility to adapt to rapidly changing markets.

### Diverse business drivers

- Increasing global consciousness towards combating climate change should result in sustained healthy demand for (clean) energy storage (materials);
- countercyclical business cushion via precious metals, which are in high demand in macro-economic downturns, due to their strong safe-haven characteristics;
- heavy global infrastructure development/refurbishment needs should translate into demand growth for even the conventional base metals; and



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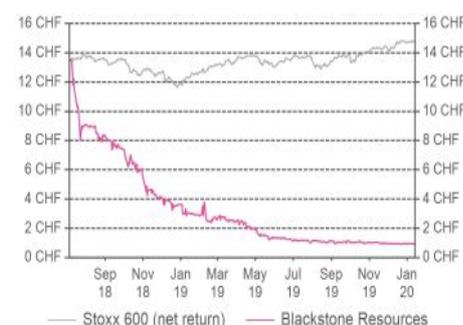
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This research has been commissioned and paid for by the company and is deemed to constitute an acceptable minor non-monetary benefit as defined in MiFID II

<b>Buy</b>	<b>Upside: 177%</b>
Target Price (6 months)	CHF 2.57
Share Price	CHF 0.93
Market Cap. CHFM	39.7
Price Momentum	<b>NEGATIVE</b>
Extremes 12Months	0.91 ▶ 3.80
Bloomberg	BLS SW Equity
Reuters	BLS.S

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PERF	1w	1m	3m	12m
Blackstone Resources	-1.06%	-1.06%	-11.4%	-69.5%
Metals & Mining	2.14%	3.66%	7.01%	12.2%
STOXX 600	0.42%	1.55%	6.84%	19.8%

Last updated: 14/01/2020	12/18A	12/19E	12/20E	12/21E
Adjusted P/E (x)	ns	19.7	17.2	1.48
Dividend yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	ns	-38.0	13.5	1.27
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](#)

- both developed and developing markets should emerge are key long-term consumers.

### **Need to know**

Blackstone has no cash-flow generation capacity as of today and is essentially an asset gatherer, which gradually pivots away from precious metals and into battery materials, and thereafter into battery manufacturing. It is thus largely a funding bet at this juncture.

With the operational start at the Peruvian gold refinery (expected by early 2020), Blackstone's immediate-term cash-flow situation should ease. Moreover, as gold demand tends to be inelastic vis-à-vis other base metals (which may have other better alternatives), the cash flows tend to be relatively stable. Further support should surface once the Colombian manganese asset begins producing meaningfully, starting in 2021. This should also mark the beginning of the group's cash flows from the sale of critical EV materials. However, Blackstone's battery foray is a high risk-high return wager akin to a venture capital investment. Hence, apart from successful R&D, which again is a complex matter, much depends on the sustained receipt of (state-sponsored) grants. The group's integrated business structure is only an early-stage advantage, and attainment of targeted improvements in batteries' energy density and cost of development should be formidable challenges.

Even though Blackstone should end-up attaining a >10% average EBITDA margin by 2020-21, the group's aggressive growth pursuits are likely to prevent it from attaining a healthy FCF position. Fortunately, given that most of the borrowings are owed to key shareholders (details in *'Debt'* section), the possibility of a near-term cash squeeze remains low, unless the realisation of (state-sponsored) grants becomes difficult.

### *Control structure*

While Ulrich Ernst (CEO) is clearly in control, the 2018 listing has: 1/ led to a change in float; and 2/ shed light on two structural shareholders, Adriatica (a BVI-based entity) and Marcor, respectively. As far as the float is concerned, smaller shareholders took the listing opportunity to sell. Although, the post-IPO shareholding has widened and includes institutional names such as UBS Fund, Credit Suisse Fund and Deutsche Bank as part of its fund management operations. As for the two structural shareholders, both happen to be closely-held private companies. Hence, public information with respect to their businesses/assets and ownership structure is nil.

### *The transition needs to be organised*

Since the IPO, Blackstone has beefed up its management team to prepare gradually for the transition, i.e. the inevitable split between ownership and management. While it remains to be seen if there is a major effect on operations, it certainly looks like a risky transition for two reasons: 1/ Ulrich Ernst has so far played a host of roles (details in *'ESG'* section) and, hence, the change of guard is bound to unleash near-term uncertainties; and 2/ the group is still far from achieving normalcy/potential across businesses.

### **Upcoming triggers**

- Near-term initiation/generation of cash flows from the Peruvian (i.e. gold) and Colombian (i.e. manganese) businesses;
- gradually increasing trading cash flows should provide an important cushion for the numerous growth initiatives; and
- any major (near-term) breakthrough in battery research and/or manufacturing could be a needle-mover, until this happens, the successful

receipt of (state) grants should be pivotal.

## 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	661,289,203
Change in staff costs	%	849	182	117
EBITDA	CHFM	-1.76	-2.31	4.84
<b>EBITDA(R) margin</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

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

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 2.13	35%	● Glencore
NAV/SOTP per share	CHF 7.55	20%	● Eramet
EV/Ebitda	CHF 0.60	20%	● Anglo American
P/E	CHF 1.41	10%	● Boliden
Dividend Yield	CHF 0.00	10%	● Johnson Matthey
P/Book	CHF 1.12	5%	● Umicore
TARGET PRICE	CHF 2.57	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

Capital employed after depreciation	CHFM	42.6	60.0	69.6
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## Profits & Risks Ratios

<b>ROE (after tax)</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>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

<b>Reference P/E (benchmark)</b>	<b>x</b>	<b>ns</b>	<b>19.7</b>	<b>17.2</b>
Free cash flow yield	%	-1.00	-4.58	-18.4
P/Book	x	19.3	1.68	0.90
<b>Dividend yield</b>	%	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

## EV Calculation

Market cap	CHFM	286	68.0	38.6
+ 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	65.5
<b>EV/EBITDA(R)</b>	<b>x</b>	<b>ns</b>	<b>-38.0</b>	<b>13.5</b>
EV/Sales	x	ns	ns	0.99

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