

Alphamin Resources

Q121 results

Results confirm long-term potential

Metals & mining

Alphamin's Q121 financial results were released in the context of known operating results (which were announced on 9 April). These inevitably reflected the pattern whereby sales from Q4 were delayed into Q1 on account of seasonal rains and, as a result, revenue, costs and depreciation were all higher than our (pro rata) FY21 expectations. The immediate consequence of the results is that we have increased our earnings estimates for FY21 by 20.1% (see Exhibit 2). However, the much more substantive point is that they were absolutely consistent with our longer-term expectations for Alphamin that, at a long-term tin price of US\$23,425/t, it is capable of generating revenues of c US\$280m pa (average FY22–27), EBITDA of US\$149m and EPS of 6.48 US cents/share.

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (US\$)	DPS (US\$)	P/E (x)	Yield (%)
12/19	27	(3)	0.01	0.00	100.9	N/A
12/20	187	(1)	(0.01)	0.00	N/A	N/A
12/21e	318	143	0.07	0.00	8.2	N/A
12/22e	271	115	0.06	0.00	9.7	N/A

Note: *PBT and EPS (diluted) are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Net debt on track for extinction

During the course of the quarter, Alphamin's net debt reduced from US\$57.5m to US\$46.5m. However, this reduction was achieved in spite of a concurrent US\$21.8m increase in accounts receivable, in the absence of which, we calculate that Alphamin's underlying net debt reduction would have been c US\$32.3m (or US\$10.8m per month or US\$129.2m per year).

Valuation: Exploration and tin price are key

The tin price has now risen by 58.8% since Q420 to US\$29,815/t. Assuming that this price prevails for the remainder of Bisie's life (ie adopting the current tin price as our long-term price), we calculate a valuation for Alphamin (excluding any blue-sky exploration potential) of 61.5 US cents, or 74.3 Canadian cents, per share (cf 42.4c and 51.2c, respectively, at US\$25,600/t, previously). Stated alternatively, we calculate that Alphamin's current share price of C\$0.72 discounts a long-term real tin price of US\$29,169/t, that is 24.5% above our assumed long-term price of US\$23,425/t, but 2.2% below the current (three-month) price at the time of writing. However, if management is successful in replenishing reserves and resources to the extent that it keeps its plant at full capacity beyond FY27 (NB see Alphamin's announcement, [Alphamin confirms high grade tin mineralisation on exploration drilling at Mpama South](#), dated 14 May), then our valuation of Alphamin's shares rises by an average of 2.5 Canadian cents for every year up to FY32 and, beyond that, potentially to as high as C\$1.162/share (cf C\$1.117/share, previously). At Edison's long-term tin price of US\$23,425/t, by contrast, we estimate an updated valuation for Alphamin of 42.4 US cents, or 51.2 Canadian cents per share – representing increases of 8.3% and 3.2% relative to our previous valuations, respectively, largely as a result of the installation and operation of the fine tin recovery circuit in the plant from June this year.

17 May 2021

Price **C\$0.72**

Market cap **C\$854m**

C\$1.2090/US\$

Net debt* (US\$m) at end-March 2021 46.5

*Includes US\$3.0m in lease liabilities

Shares in issue 1,185.4m

Free float 42%

Code AFM

Primary exchange TSX-V

Secondary exchange JSE AltX

Share price performance



% 1m 3m 12m

Abs 30.9 38.5 453.9

Rel (local) 30.6 32.1 334.0

52-week high/low C\$0.66 C\$0.12

Business description

Alphamin owns (84.14%) and operates the Mpama North tin mine in the North Kivu province of the Democratic Republic of the Congo with a grade of c 4.5% Sn (the world's highest). Accounting for c 4% of the world's mined supply, it is the second largest tin mine in the world outside China and Indonesia.

Next events

Mpama North drilling May 2021

Q221 results August 2021

Q321 results October 2021

Mpama South resource Year-end 2021

Analyst

Charles Gibson +44 (0)20 3077 5724

mining@edisongroup.com

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Q121 results review

Alphamin's Q121 financial results were released in the context of known operating results, which were announced on 9 April and are summarised in the table below with respect to prior quarters.

Exhibit 1: Alphamin operating results, Q419–Q121						
	Q419	Q120	Q220	Q320	Q420	Q121
Tons processed	71,559	85,060	91,928	96,086	93,560	93,997
Tin grade (%)	4.9	3.5	4.3	3.8	4.2	3.8
Contained tin (t)	3,506	2,977	3,953	3,651	3,930	3,572
Overall plant recovery (%)	64	71	69	71	74	74
Actual payable tin produced (t)	2,235	2,119	2,739	2,563	2,898	2,611
Payable tin sold (t)	1,109	3,860	2,613	2,695	2,306	3,351
Tin price achieved (US\$/t)	17,849	15,553	15,359	17,436	18,497	23,083

Source: Alphamin Resources.

While we have not hitherto formally published estimates of quarterly results for Alphamin, a number of features of the company's operational and financial results (page 4, below) are noteworthy:

- Operations at Bisie in Q4 and Q1 are inevitably affected by the seasonal rains that occur, largely in Q4. This typically has the effect of delaying sales of tin concentrate from Q4 until Q1 (which has the effect of inflating revenue and associated costs in Q1). However, Q1 is also invariably affected by the aftermath of the rains in Q4 when roads become degraded and are harder to traverse, which also inflates costs. As a result, both revenue and costs were higher in Q1 than the pro rata level implied by our prior FY21 full-year forecasts. Depreciation – which is conducted on a units of production basis for mine development and infrastructure – was also inflated given a pro rata contribution from sales of concentrate out of inventory. In addition, off-mine costs that are linked to the price of tin, such as marketing commissions, government royalties, export fees and smelter deductions, also increased as the tin price increased.
- Q121 financial results included a US\$5.6m charge relating to the company's outstanding warrants and the fact that Alphamin's share price rose over the period in question. This charge is non-cash in nature and therefore affects neither cash flow nor our valuation of Alphamin. In our opinion, it also distorts the results of the group and, as such, it is a cost that we decline to attempt to forecast and one that we treat as an exceptional item (as far as historic, incurred warrant charges are concerned) in our financial summary on page 7.
- During the course of the quarter, Alphamin's net debt reduced from US\$57.5m to US\$46.5m and its gearing (net debt/equity) and leverage (net debt/[net debt+equity]) from 33.5% and 25.1%, respectively, to 25.5% and 20.3%. However, this reduction in net debt of US\$11.0m (US\$44.0m on an annualised basis) would have been much greater had it not been for a simultaneous US\$21.8m increase in accounts receivable. The increase resulted from the change of payment terms since mid-February 2021 from 80% free on truck (FOT) Logu to 95% on arrival in Kampala (Uganda), which resulted in an approximately 25- to 30-day delay in receiving the 80% portion of the payment. In the absence of this change, we calculate that Alphamin's underlying net debt reduction over the course of the quarter could have been in the order of US\$32.3m (or US\$129.2m on an annualised basis).
- Alphamin's effective tax rate varies materially from quarter to quarter – for example, between 97.9% in Q320 to -259.4% in Q419 – not least, on account of the warrant charge discussed above. In Q121, it was a relatively high 44.6%, albeit almost all of the charge related to movements in deferred tax rather than cash taxes.
- The minority interest reflected in Alphamin's income statement has also proved to be of a similarly variable nature on a quarterly basis – eg ranging from 1,286.0% of net profit in Q320 to -8.9% in Q420. Again, in large part, this apparent variability is a function of the warrant

charge (see above) that occurs at top company level and in which minorities do not share. In Q121, this item amounted to 26.3% of net profit – closer to the middle of the range, but still above the ambient 15.86% rate implied by Alphamin's 84.14% interest in the Bisie mine. However, if the warrant charge is excluded, then the rate reduces to 17.3% (ie within one percentage point of where it would typically be expected to be).

- In addition to its financial results for Q121, Alphamin also provided production guidance of 2,700t for Q221.

We have now formulated quarterly estimates for Alphamin for the remainder of the year (see Exhibit 2 below). In addition to Q121 results, Q221 guidance and the recent strength in the tin price, we have also now incorporated the effects of commissioning a fine tin recovery circuit into the plant from June 2021.

Fine and ultrafine tin losses in circuit were identified at the time of the plant's commissioning in 2019 and the decision was taken to install a fine tin recovery circuit to reduce them. Subsequently, at the time of its operational results on 9 April, Alphamin confirmed that the fine tin recovery plant was on schedule for commissioning during June 2021. In the light of this, we have increased our overall plant recoveries by 5.5pp into the future (to 77–80%) and throughput by 5%.

Quarterly estimates for Alphamin in the light of these adjustments are provided in the table below, albeit with the caveat that the quarterly results of junior mining companies can be prone to material volatility relative to both historical results and analysts' forecasts. At the time of writing, the current three-month price of tin is US\$29,815/t. Note that, for the purposes of forecasting, we have assumed that this price will prevail for the remainder of the year.

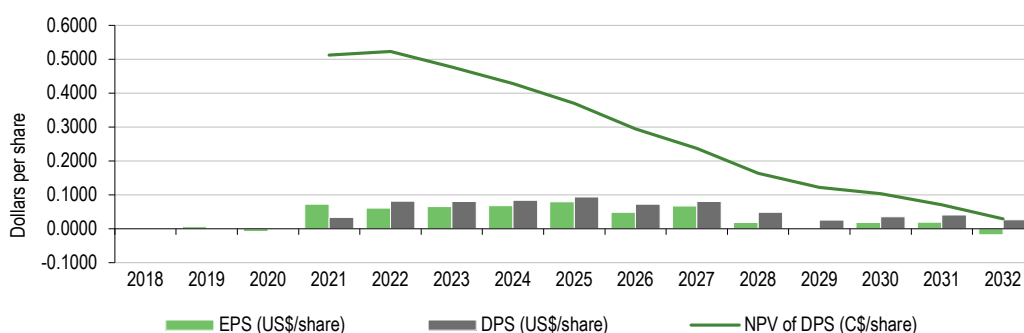
Exhibit 2: Edison forecast of Alphamin income statement, Q121a–Q421e (US\$ unless otherwise indicated)

	Q121a	Q221e	Q321e	Q421e	FY21e (current)	FY21e (prior)
Tons Processed (t)	93,997	93,250	97,913	97,913	383,072	373,000
Tin Grade (%)	3.8	4.0	4.2	4.2	4.03	4.16
Contained tin (t)	3,572	3,707	4,073	4,073	15,425	15,517
Overall plant recovery (%)	74	73	78	78	75.8	72.8
Actual payable tin produced (t)	2,611	2,700	3,191	3,191	11,693	11,302
Payable Tin Sold (t)	3,351	2,700	3,191	2,537	11,779	11,302
Tin Price achieved (US\$/t)	23,083	27,892	29,099	29,099	27,111	23,978
Revenue	76,032,045	75,308,948	92,853,212	73,818,303	318,012,509	271,012,782
Cost of goods sold	(37,256,106)	-28,239,750	-30,375,125	-23,148,892	-119,019,873	(111,372,291)
Depreciation	6,380,606	6,444,399	6,508,192	6,571,985	25,905,182	21,853,394
Gross profit	32,395,333	40,624,799	55,969,895	44,097,427	173,087,454	137,787,096
General and administrative	(4,549,884)	-4,579,482	-4,579,482	-4,579,482	-18,288,330	(18,317,928)
Operating profit/(loss)	27,845,449	36,045,317	51,390,413	39,517,945	154,799,124	119,469,168
Other						
Warrants	(5,636,827)				-5,636,827	0
Profit on foreign exchange	16,595				16,595	0
Loss on write off of assets	0				0	0
Interest expense	(2,648,401)				-2,648,401	
Interest income	11				11	
Net interest	(2,648,390)	-1,182,789	-1,182,789	-1,182,789	-6,196,756	(6,196,756)
Profit before taxes	19,576,827	34,862,529	50,207,624	38,335,156	142,982,136	113,272,413
Current income tax expense	(11,113)	-8,715,632	-12,551,906	-9,583,789	-30,862,440	(28,318,103)
Deferred tax movement	(8,713,199)				-8,713,199	0
Total tax	(8,724,312)	-8,715,632	-12,551,906	-9,583,789	-39,575,639	(28,318,103)
Effective tax rate (%)	(44.6)	25.0	25.0	25.0	-27.7	(25.0)
Net profit/(loss)	10,852,515	26,146,897	37,655,718	28,751,367	103,406,497	84,954,309
Other Comprehensive income						
Items that may be reclassified to profit or loss						
Exchange differences on translation of foreign operations	(1,803)				-1,803	
Total comprehensive profit/(loss) for the period	10,850,712	26,146,897	37,655,718	28,751,367	103,404,694	84,954,309
Profit/(loss) and total comprehensive profit/(loss) attributable to:						
Shareholders	8,002,190	21,999,999	31,683,521	24,191,400	85,877,110	71,480,556
Non-controlling interests	2,850,325	4,146,898	5,972,197	4,559,967	17,529,387	13,473,753
Minority (%)	26.3	15.86	15.86	15.86	17.0	15.86
Total	10,852,515	26,146,897	37,655,718	28,751,367	103,406,497	84,954,309
Weighted average number of shares in period	1,182,251,580	1,185,431,350	1,185,431,350	1,185,431,350	1,184,798,408	1,184,713,455
Derivatives	119,536,582	98,507,626	98,507,626	98,507,626	98,507,626	98,604,716
Fully diluted weighted average number of shares in issue	1,301,788,162	1,283,938,976	1,283,938,976	1,283,938,976	1,283,306,034	1,283,318,171
Headline earnings	8,002,190	21,999,999	31,683,521	24,191,400	85,877,110	71,480,556
EPS (US\$/share)	0.0068	0.0186	0.0267	0.0204	0.0725	0.0603
Diluted EPS (US\$/share)	0.0061	0.0171	0.0247	0.0188	0.0669	0.0557
HEPS (US\$/share)	0.0068	0.0186	0.0267	0.0204	0.0725	0.0603
Diluted HEPS (US\$/share)	0.0061	0.0171	0.0247	0.0188	0.0669	0.0557

Source: Alphamin, Edison Investment Research. Note: Company presented basis.

Valuation

At an (unchanged) long-term real tin price of US\$23,425/t, we estimate an increased discounted dividend valuation of Alphamin of 42.4 US cents (cf 39.1c previously), or 51.2 Canadian cents per share (cf 49.6 Canadian cents per share previously), largely as a result of the installation and operation of the fine tin recovery plant from June this year.

Exhibit 3: Alphamin LOM forecast EPS, DPS and NPV₁₀ of DPS, FY18–32 (US\$/share)


Source: Edison Investment Research

Note that this valuation otherwise assumes that management executes the Bisie life of mine (LOM) schedule according to plan and applies a 10% discount rate to future forecast dividends.

Key sensitivity

One key sensitivity for Alphamin is its exposure to exploration success. Alphamin's processing schedule follows its mining schedule very closely. As this drops away towards the end of the life of the mine, so too does production, earnings and cash flow. To the extent that Alphamin is successful in its exploration at Mpama North and Mpama South in keeping its plant in full production at FY27 levels into the future (see Alphamin's announcement, [Alphamin reports extensive mineralised intercepts on drilling at Mpama South](#), released on 12 March 2021 and also its announcement, [Alphamin confirms high grade tin mineralisation on exploration drilling at Mpama South](#), released on 14 May 2021), our valuation of the company increases as follows:

Exhibit 4: Alphamin valuation sensitivity to exploration success

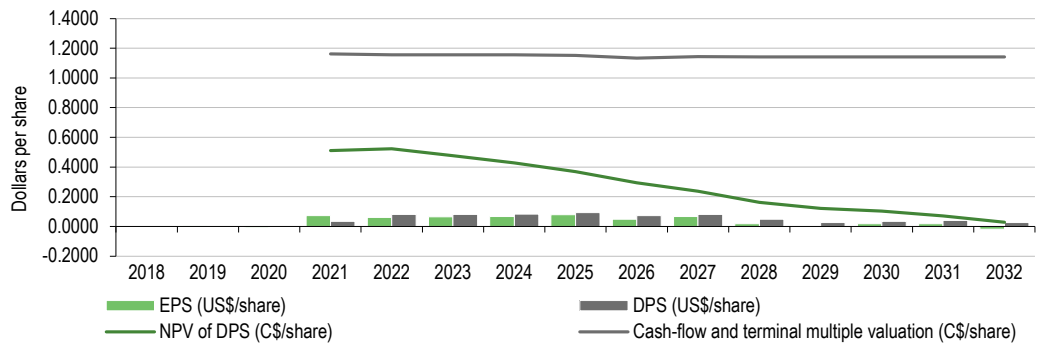
Additional years at full capacity	To year	Valuation (US\$/share)	Valuation (C\$/share)	Incremental change (C\$/share)
		0.425	0.512	
0	2027	0.411	0.497	-0.015
+1	2028	0.432	0.522	+0.025
+2	2029	0.458	0.553	+0.031
+3	2030	0.476	0.575	+0.022
+4	2031	0.491	0.594	+0.019
+5	2032	0.514	0.622	+0.028

Source: Edison Investment Research

For the purposes of this valuation, we have assumed an ongoing exploration commitment at Alphamin of US\$2.7m per year in order to achieve the replenishment of reserves and resources required to keep the mine operating at full capacity. Readers should note that this is the reason for the apparent decline in valuation for '0' years of additional life in Exhibit 4, above; in this case, extra exploration expenditure has been incurred for no additional increase in mine life.

On average therefore, each additional year by which the plant is maintained at full capacity (in the short term) adds 2.5 Canadian cents per share in value to our valuation of Alphamin. In the limiting case, in which exploration success is sufficient to maintain production at FY27 levels indefinitely (which, for these purposes may be taken to mean c 48 years), our valuation of Alphamin rises to US\$0.95/share, or C\$1.162/share, and its valuation profile to that shown in Exhibit 5, below:

Exhibit 5: Alphamin EPS, DPS and valuation forecast, including exploration success, FY18–32 (\$/share)



Source: Edison Investment Research

Note we calculate that Alphamin’s current share price of C\$0.72 discounts a long-term real tin price of US\$29,169/t, that is 24.5% above our assumed long-term price of US\$23,425/t, but 2.2% below the current (three-month) price of tin. Alternatively, adopting the current (three-month) tin price, of US\$29,815/t, as our long-term price would result in a valuation for Alphamin (excluding any blue-sky, upside exploration potential) of 61.5 US cents, or 74.3 Canadian cents, per share.

Financials

Between Q419 and Q121, Alphamin paid down financial net debt (ie excluding leases) by US\$45.2m, from US\$88.6m at end-December 2019 to US\$43.4m at end-March 2021. This level of net debt equates to a gearing (net debt/equity) ratio of 23.9% and a leverage (net debt/[net debt+equity]) ratio of 19.3% (cf 61.0% and 37.9% at end-FY19, respectively). As discussed previously, with the tin price remaining high and at the current (underlying) rate of net debt repayment, we estimate that there is scope for net debt to have reduced to zero before the end of FY21 and for Alphamin, at least theoretically, to be in a position to make dividend distributions to shareholders.

Exhibit 6: Financial summary

Accounts: IFRS, year-end: December, US\$000s	2018	2019	2020	2021e	2022e
INCOME STATEMENT					
Total revenues	0	27,221	187,445	318,013	270,976
Cost of sales	0	(7,915)	(119,554)	(119,020)	(111,747)
Gross profit	0	19,306	67,892	198,993	159,229
SG&A (expenses)	(9,440)	(14,526)	(17,238)	(18,288)	(18,288)
R&D costs	0	0	0	0	0
Other income/(expense)	0	0	0	0	0
Exceptionals and adjustments	0	(3,673)	(7,649)	0	0
Depreciation and amortisation	(20)	(7,927)	(25,471)	(25,905)	(26,300)
Reported EBIT	(9,460)	(3,147)	25,182	154,799	114,641
Finance income/(expense)	3	(6,330)	(15,614)	(6,197)	229
Other income/(expense)	7	(4)	(1,518)	17	0
Exceptionals and adjustments	6,272	6,850	(8,776)	(5,637)	0
Reported PBT	(3,178)	(2,632)	(725)	142,982	114,870
Income tax expense (includes exceptionals)	0	7,755	(7,141)	(39,576)	(28,718)
Reported net income	(3,178)	5,123	(7,866)	103,406	86,153
Basic average number of shares, m	733	845	1,066	1,185	1,185
Basic EPS (US\$)	(0.00)	0.01	(0.01)	0.07	0.06
Adjusted EBITDA	(9,440)	8,453	58,302	180,704	140,940
Adjusted EBIT	(9,460)	526	32,831	154,799	114,641
Adjusted PBT	(9,450)	(5,809)	15,699	148,619	114,870
Adjusted EPS (US\$)	(0.00)	0.01	(0.01)	0.09	0.07
Adjusted diluted EPS (US\$)	(0.00)	0.00	(0.01)	0.07	0.06
BALANCE SHEET					
Property, plant and equipment	230,626	255,125	239,103	219,577	197,616
Other non-current assets	2,467	10,632	15,882	19,628	22,338
Total non-current assets	233,093	265,757	254,985	239,206	219,954
Cash and equivalents	17,105	5,941	6,559	45,898	157,588
Inventories	3,235	27,755	21,866	17,425	14,848
Trade and other receivables	0	1,486	7,601	31,801	27,098
Other current assets	3,738	17,633	6,710	6,710	6,710
Total current assets	24,078	52,815	42,736	101,835	206,243
Non-current loans and borrowings	80,896	78,229	34,821	0	0
Other non-current liabilities	6,699	9,641	8,872	8,872	8,872
Total non-current liabilities	87,595	87,870	43,693	8,872	8,872
Trade and other payables	7,030	23,487	17,037	16,353	15,357
Current loans and borrowings	0	16,339	25,810	0	0
Other current liabilities	5,711	16,290	13,250	13,250	13,250
Total current liabilities	12,742	56,116	56,098	29,603	28,607
Equity attributable to company	131,914	145,215	171,735	258,841	331,329
Non-controlling interest	24,921	29,371	26,196	43,725	57,389
CASH FLOW STATEMENT					
Profit before tax	(3,178)	(2,632)	(725)	142,982	114,870
Net finance expenses	0	5,456	15,616	0	0
EBIT	0	0	0	0	0
Depreciation and amortisation	20	7,927	26,504	25,905	26,300
Share based payments	300	403	471	0	0
Other adjustments	(6,272)	(6,851)	8,842	0	0
Movements in working capital	3,942	(6,710)	(20,281)	(20,443)	6,285
Interest paid/received	0	(3,092)	(11,378)	0	0
Income taxes paid	0	0	(843)	(39,576)	(28,718)
Cash from operations (CFO)	(5,188)	(5,498)	18,205	108,868	118,737
Capex	(116,094)	(22,720)	(7,448)	(10,126)	(7,048)
Acquisitions & disposals net	0	0	0	0	0
Other investing activities	151	(46)	(96)	0	0
Cash used in investing activities (CFIA)	(115,943)	(22,766)	(7,544)	(10,126)	(7,048)
Net proceeds from issue of shares	55,235	11,936	10,010	1,229	0
Movements in debt	69,448	0	(18,735)	(60,631)	0
Dividends paid	0	0	0	0	0
Other financing activities	6,317	5,165	(1,319)	0	0
Cash from financing activities (CFF)	131,000	17,100	(10,044)	(59,403)	0
Currency translation differences and other	0	0	0	0	0
Increase/(decrease) in cash and equivalents	9,869	(11,164)	617	39,340	111,689
Currency translation differences and other	0	0	0	0	0
Cash and equivalents at end of period	17,105	5,941	6,559	45,898	157,588
Net (debt)/cash*	(63,791)	(88,627)	(54,073)	45,898	157,588
Movement in net (debt)/cash over period	(63,791)	(24,836)	34,554	99,971	111,689

Source: Company sources, Edison Investment Research. Note: *Excludes lease liabilities.

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia