

United Kingdom | Resources | Mining & Commodities | GEM LN | Market Cap
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Gemfields*

Binding contract for 2nd MRM plant



Ben Davis
+44 (0) 20 3100 2083
ben.davis@liberum.com

Tom Price
+44 (0) 20 3100 2085
tom.price@liberum.com

Yuen Low
+44 (0) 20 3100 2091
yuen.low@liberum.com

Gemfields has entered into a binding contract with Consolmet to construct an additional processing plant Montepuez Ruby Mine for \$70m (previously budgeted \$60m). This will triple the existing processing capacity, allowing MRM to process its sizeable stockpile and other lower-grade deposits. Company has previously flagged an 18 month payback from when it becomes operational, and that the plant will be funded from existing cash resources.

Gemfields commits to investment as region stabilises

The company had previously paused investment on a second processing plant due to insurgency action in the region ([Gemfields \(BUY, TP 28p\) - Operations restart at Montepuez](#)). However, industry confidence there has slowly improved (e.g. gas majors, [Total](#) and [Exxon](#), are returning to area). We are raising capex in our model to new guidance of \$60-70m, while lowering our discount rate for the Mozambique operations from 25% to 20% (Kagem remains at 12.5%). This raises our price target to 29p.

Figure 1: NPV Summary

	Effective	Discount	NPV	NPV	% Group
	Interest	Rate	US\$M	£/shr	%
Montepuez	75.0%	20.0%	\$148	£0.09	39%
Kagem	75.0%	12.5%	\$158	£0.10	42%
Faberge	100.0%	10.0%	\$32	£0.02	9%
Sedibelo	6.5%		\$38	£0.02	10%
Corporate & other	100.0%	10.0%	-\$3	(£0.00)	
Net cash / (debt)			\$105	£0.06	
Group Totals			\$477	£0.29	
P/NAV				0.53	
Upside/(downside)				87%	

Source: Liberum

BUY

TP 29.0p (from 27.0p)
Publication price 15.8p

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Next events

Interim results Sept 23

Stock performance



Summary financials & valuation (\$m)

Calendar year

EV (CY)	22A	23E	24E	25E
Market Cap	246	246	246	246
Net Debt/(Cash)	(104.5)	(98.7)	(89.1)	(44.7)
Pension & other adj.	90.6	99.3	109.5	118.9
EV	232	246	266	320

Valuation (CY)	22A	23E	24E	25E
P/E (x)	4.2	4.7	4.0	4.3
Div Yield (%)	21.0	13.7	14.8	16.0
EV/Sales (x)	0.7	0.9	0.9	0.9
EV/EBITDA (x)	1.4	1.8	1.8	2.0
EV/EBIT (x)	2.0	2.3	2.1	2.8
FCFe Yield (%)	37.6	16.9	10.3	(2.7)
Price / book (x)	0.5	0.5	0.5	0.5

Financial year (December year end)

Financials (FY)	22A	23E	24E	25E
Sales	341	289	288	374
EBITDA	167	134	151	160
EBIT	117	108	125	116
EBIT Margin (%)	34.2	37.4	43.3	31.0
Net Interest	(1.9)	(0.5)	0.2	0.3
PBT	115	107	125	116
FD EPS (\$)	0.0	0.0	0.0	0.0
DPS (p)	3.3	2.2	2.3	2.5
Net Debt/(Cash)*	(104.5)	(98.7)	(89.1)	(44.7)
Net Debt/(Cash)**	(104.5)	(98.7)	(89.1)	(44.7)
Net Debt*/EBITDA (x)	(0.6)	(0.7)	(0.6)	(0.3)
Net Debt*/MktCap (x)	(0.4)	(0.4)	(0.4)	(0.2)

Source: Liberum, Bloomberg

All numbers are on a post IFRS 16 basis unless stated. * Including leases. ** Excluding leases

Financial model

Figure 2: Income statement (\$m)

December year-end	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E
Total sales	212.6	34.7	258.1	341.1	288.6	287.9	374.4	394.2
Sales growth (%)	3.1	(83.7)	644.5	32.2	(15.4)	(0.2)	30.0	5.3
Gross margin (%)	38.0	(86.8)	51.6	49.0	46.5	52.4	42.7	42.8
Cost of sales	(131.8)	(64.7)	(125.0)	(173.9)	(154.3)	(137.1)	(214.7)	(225.5)
Gross profit	80.9	(30.1)	133.1	167.2	134.3	150.8	159.7	168.7
Operating expenses	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Administrative expenses	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Share based payments	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Underlying EBITDA	80.9	(30.1)	133.1	167.2	134.3	150.8	159.7	168.7
Depreciation	20.5	32.7	27.6	35.9	26.5	26.1	43.6	43.6
Amortisation (not acquired)	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Underlying EBIT (pre JVs)	71.9	(93.4)	107.9	116.5	107.8	124.8	116.2	125.2
EBIT (pre JVs) margin (%)	33.8	(269.4)	41.8	34.2	37.4	43.3	31.0	31.8
Revenue	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
PBT	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Tax	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
JV post tax profit	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
JV contribution	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit on disposal	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Underlying EBIT	71.9	(93.4)	107.9	116.5	107.8	124.8	116.2	125.2
EBIT Margin (%)	33.8	(269.4)	41.8	34.2	37.4	43.3	31.0	31.8
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Exceptional / extraordinary costs	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Reported EBIT	71.9	(93.4)	107.9	116.5	107.8	124.8	116.2	125.2
Non-operating exceptional costs	0.0	0.0	0.0	0.0	0.0	1.0	2.0	3.0
Interest income	(6.6)	(2.8)	(0.1)	0.5	0.9	0.9	0.6	0.5
Interest costs	(4.1)	(3.0)	(3.1)	(2.4)	(1.4)	(0.7)	(0.3)	(0.3)
Pension credit / (cost)	0.0	0.0	0.0	0.0	0.0	1.0	2.0	3.0
Net Interest	(10.7)	(5.8)	(3.2)	(1.9)	(0.5)	0.2	0.3	0.2
Underlying PBT	61.2	(99.2)	104.7	114.7	107.3	125.0	116.5	125.4
Reported PBT	61.2	(99.2)	104.7	114.7	107.3	125.0	116.5	125.4
Underlying tax rate (%)	0.0	0.0	0.0	0.0	0.0	0.0	100.0	200.0
Exceptional tax rate (%)	0.0	0.0	0.0	0.0	0.0	0.0	100.0	200.0
Reported tax rate (%)	(46.2)	(6.0)	(39.5)	(35.2)	(35.0)	(35.0)	(35.0)	(35.0)
Underlying tax	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Exceptional tax	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Reported tax	(28.2)	6.0	(41.4)	(40.4)	(37.6)	(43.7)	(40.8)	(43.9)
Underlying PAT	32.9	(93.2)	63.3	74.3	69.7	81.2	75.7	81.5
Discontinued operations (net)	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Profit on disposal	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Reported PAT	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Preference dividends	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Minorities	84.7	70.4	79.7	90.6	99.3	109.5	118.9	129.1
Underlying net income	32.9	(93.2)	63.3	74.3	69.7	81.2	75.7	81.5
Reported net income	24.6	(82.3)	48.4	56.8	52.3	60.9	56.8	61.1
Weighted average number of shares (basic) (m)	1,289.6	1,169.0	1,224.7	1,184.2	1,224.7	1,224.7	1,224.7	1,224.7
Weighted average number of shares (diluted) (m)	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Number of shares at period end (basic) (m)	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Underlying EPS (basic) (\$)	1.9	(7.0)	4.0	4.8	4.3	5.0	4.6	5.0
Underlying EPS (basic) growth (%)	(140.6)	(468.0)	(156.1)	21.4	(10.9)	16.5	(6.8)	7.7
Underlying EPS (diluted) (\$)	0.0	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0
Underlying EPS (diluted) growth (%)	(140.6)	(468.0)	(156.1)	21.4	(10.9)	16.5	(6.8)	7.7
Pro-forma EPS (diluted) (\$)	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
DPS (Ordinary) (p)	0.0	0.0	1.2	3.3	2.2	2.3	2.5	2.7
DPS (Total) (p)	0.0	0.0	1.2	3.3	2.2	2.3	2.5	2.7
Dividend growth (%)	n.a.	n.a.	n.a.	167.1	(34.5)	7.8	8.5	8.5
Dividend cover (x)	n.a.	n.a.	2.5	1.1	1.5	1.7	1.4	1.4

Source: Liberum

Figure 3: Cash flow statement (\$m)

December year-end	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E
Reported EBIT	71.9	(93.4)	107.9	116.5	107.8	124.8	116.2	125.2
Profit in associates	(2.6)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	20.5	32.7	27.6	35.9	26.5	26.1	43.6	43.6
Amortisation	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Loss / (profit) on sale of PPE	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Share based payments	1.7	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Increase/(Decrease) in provisions	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Loss / (Gain) on business disposal	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Operating cash flows before movements in working capital	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
(Increase) / decrease in inventories	(11.5)	(6.2)	2.0	5.2	0.7	(0.5)	(63.4)	(8.8)
(Increase) / decrease in receivables	(21.8)	49.8	(51.1)	(16.1)	(5.3)	(7.1)	(35.4)	(7.8)
(Decrease) / increase in payables	7.6	(18.2)	21.8	5.0	0.5	0.2	25.7	3.6
(Increase) / decrease in working capital	(25.7)	25.5	(27.3)	(5.9)	(4.1)	(7.4)	(73.0)	(13.1)
Cash generated by operations	46.4	(5.2)	107.9	159.3	131.1	144.3	87.3	156.1
Tax paid	(9.7)	(15.0)	(9.7)	(39.8)	(37.6)	(43.7)	(40.8)	(43.9)
Net cash flow from operating activities	36.7	(20.2)	98.1	119.5	93.5	100.6	46.5	112.3
Purchase of PPE	(27.8)	(5.6)	(8.0)	(27.8)	(43.3)	(65.2)	(43.6)	(36.6)
Purchase of other intangibles	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Net capex	(27.8)	(5.6)	(8.0)	(27.8)	(43.3)	(65.2)	(43.6)	(36.6)
Dividends from associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Movement in short term investments	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Acquisitions	32.7	(0.5)	1.1	(6.3)	0.0	0.0	0.0	0.0
(Investments) / disposals of associates	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Net cash flow from investing activities	(1.9)	(13.2)	(17.4)	(41.0)	(43.3)	(65.2)	(43.6)	(36.6)
Net interest received / (paid)	0.8	0.4	0.1	0.5	0.0	0.0	0.0	0.0
Equity dividends paid	0.0	0.0	0.0	(40.0)	(46.0)	(34.1)	(37.5)	(41.3)
Share issues / (repurchases)	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Increase / (decrease) in borrowings	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Net cash flow from financing activities	(19.6)	(1.1)	(26.0)	(55.5)	(62.1)	(50.5)	(47.2)	(51.7)
Increase in cash and cash equivalents	15.2	(34.4)	54.8	23.0	(11.8)	(15.1)	(44.4)	23.9
(Increase) / decrease in borrowings	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Repayment of finance leases	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Exchange / other	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
(Increase) / decrease in net debt	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Net cash / (debt) (start)	25.4	(12.6)	63.0	104.5	98.7	89.1	44.7	68.6
Net cash / (debt) (end) including leases	25.4	(12.6)	63.0	104.5	98.7	89.1	44.7	68.6

Source: Liberum

Figure 4: Balance sheet (\$m)

December year-end	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E
Goodwill	0	0	0	0	0	0	1	2
Other intangible assets	55	51	50	56	56	56	56	56
PPE	377	363	343	337	354	393	393	386
Trade and other LT receivables	11	11	14	16	16	16	16	16
Deferred tax asset	0	0	0	0	0	1	2	3
Investments in JVs / Associates	7	3	3	6	6	6	6	6
Retirement benefit asset	0	0	0	0	0	0	1	2
Fixed assets	507	458	446	447	464	503	503	496
Inventories	111	118	116	111	110	110	174	183
Trade and other receivables	88	33	84	100	105	113	148	156
Cash & cash equivalents	78	44	98	119	107	92	47	71
Financial assets	0	0	0	0	0	0	1	2
Current assets	277	199	298	329	322	315	369	410
Total Assets	784	657	744	776	786	817	872	905
Trade payables	30	17	39	44	45	45	71	74
Borrowings	25	33	25	14	8	3	3	3
Tax liabilities	16	4	21	33	33	33	33	33
Provisions	0	0	0	0	0	0	1	2
Other current liabilities	0	0	0	0	0	0	0	0
Current liabilities	75	60	90	104	99	93	119	123
Total assets less current liabilities	709	597	654	672	687	724	753	783
Net current assets	202	139	208	225	224	221	250	287
Long-term borrowings and finance leases	28	24	10	0	0	0	0	0
Provisions	6	4	6	8	8	8	8	8
Other payables	0	0	0	0	0	0	n.a.	n.a.
Other non-current liabilities	96	87	94	83	83	83	83	83
Net Assets	579	483	544	581	596	633	662	692
Total equity	579	483	544	581	596	633	662	692
Minority interests	85	70	80	91	99	109	119	129
Shareholders' equity	494	413	465	491	497	524	543	563

Source: Liberum

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Research

Alternatives

Shonil Chande

+44 (0) 20 3100 2259
shonil.chande@liberum.com

Energy Transition & Infrastructure

Joseph Pepper

+44 (0) 20 3100 2271
joseph.pepper@liberum.com

Building

Building Materials, Equipment Hire & Housebuilders

Charlie Campbell

+44 (0)20 3100 2090
charlie.campbell@liberum.com

Edward Prest

+44 (0)20 3100 2096
edward.prest@liberum.com

Consumer

Consumer Discretionary

Adam Tomlinson

+44 (0)20 3100 2174
adam.tomlinson@liberum.com

Consumer Goods

Anubhav Malhotra

+44 (0)20 3100 2197
anubhav.malhotra@liberum.com

Roving

Wayne Brown

+44 (0) 20 3100 2082
wayne.brown@liberum.com

Financials and FinTech

Financial & Professional Services

James Allen

+44 (0)20 3100 2088
james.allen@liberum.com

FinTech

Nick Anderson

+44 (0)20 3100 2076
nick.anderson@liberum.com

Healthcare

Edward Thomason

+44 (0) 20 3100 2092
edward.thomason@liberum.com

Seb Jantet

+44 (0) 20 3100 2047
seb.jantet@liberum.com

Industrials

Capital Goods

Edward Maravanyika

+44 (0) 20 3100 2275
edward.maravanyika@liberum.com

Leisure & Travel

Leisure

Anna Barnfather

+44 (0)20 3100 2176
anna.barnfather@liberum.com

Nishant Dahad

+44 (0)20 3100 2068
nishant.dahad@liberum.com

Real Estate

Chris Spearing

+44 (0)20 3100 2169
chris.spearing@liberum.com

Bjorn Zietsman

+44 (0)20 3100 2067
bjorn.zietsman@liberum.com

Convertibles

Simon Smith

+44 (0)20 3100 2171
simon.smith@liberum.com

Resources

Mining & Commodities

Ben Davis

+44 (0)20 3100 2083
ben.davis@liberum.com

Yuen Low

+44 (0)20 3100 2091
yuen.low@liberum.com

Tom Price

+44 (0) 203 100 2085
tom.price@liberum.com

New Energy

Sam Wahab

+44 (0)20 3100 2095
sam.wahab@liberum.com

Oil & Gas

David Hewitt

+353 87 704 4038
david.hewitt@liberum.com

Strategy, Accounting and Sustainability

Joachim Klement

+44 (0)20 3100 2073
joachim.klement@liberum.com

Dr Kenneth Lee

+44 (0) 203 100 2069
kenneth.lee@liberum.com

Susana Cruz

+44 (0) 203 100 2277
susana.cruz@liberum.com

Support Services

Support Services & Special Situations

Joe Brent (Head of Research)

+44 (0)20 3100 2272
joe.brent@liberum.com

Sanjay Vidyarthi

+44 (0)20 3100 2278
sanjay.vidyarthi@liberum.com

Alexandro da Silva O'Hanlon

+44 (0)20 3100 2268
alex.ohanlon@liberum.com

Transport

Gerald Khoo

+44 (0)20 3100 2195
gerald.khoo@liberum.com

Technology & Media

Ciaran Donnelly

+44 (0)20 3100 2071
ciaran.donnelly@liberum.com

Andrew Ripper

+44 (0)20 3100 2086
andrew.ripper@liberum.com

William Larwood

+44 (0)20 3100 2097
william.larwood@liberum.com

Pool Analyst

Jon Byrne

+44 (0) 20 3100 2074
jon.byrne@liberum.com

Richard Tomblin

+44 (0)20 3100 2172
richard.tomblin@liberum.com

Corporate & Investor Relations

Natalie Clarke

+44 (0)20 3100 2191
natalie.clarke@liberum.com

Chris Cooper

+44 (0)20 3100 2258
chris.cooper@liberum.com

Nicole Barbour

+44 (0)20 3100 2182
nicole.barbour@liberum.com

Skaiste Miglin

+44 (0)20 3100 2187
skaiste.miglin@liberum.com

Marcio Remedios

+44 (0)20 3100 2033
marcio.remedios@liberum.com

Martin Parker

+44 (0)20 3100 2065
martin.parker@liberum.com

Connie Owens

+44 (0)20 3100 2021
connie.owens@liberum.com

Equity Sales – London

David Parsons (Head of Equities)

+44 (0)20 3100 2125
david.parsons@liberum.com

Oliver Baxendale (Head of Sales)

+44 (0)20 3100 2193
oliver.baxendale@liberum.com

William Game

+44 (0)20 3100 2120
william.game@liberum.com

Joel Knight

+44 (0)20 3100 2030
joel.knight@liberum.com

Guy Froud

+44 (0)20 3100 2242
guy.froud@liberum.com

Oliver Houghton

+44 (0)20 3100 2129
oliver.houghton@liberum.com

Paras Amlani

+44 (0)20 3100 2113
paras.amlani@liberum.com

Ruth Watts

+44 (0)20 3100 2216
Ruth.watts@liberum.com

Specialist Sales

Real Estate

John Mozley

+44 (0)20 3100 2115
john.mozley@liberum.com

New Energy, Mining and Industrials

Simon Fickling

+44 (0)20 3100 2112
simon.fickling@liberum.com

Alternative Funds

James Shields

+44 (0) 20 3100 2266
james.shields@liberum.com

Tom Biltcliffe

+44 (0) 20 3100 2253
tom.biltcliffe@liberum.com

Equity Sales – New York

Julian Plant (CEO - USA)

+1 212 596 4824
julian.plant@liberum.com

Tony Beckett

+1 212 596 4807
tony.beckett@liberum.com

Sarah Giovannetti

+1 212 596 4818
sarah.port@liberum.com

Peter Penha

+1 212 596 4808
peter.penha@liberum.com

Sales Trading

Graham Smith (Head of Execution)

+44 (0)20 3100 2101
graham.smith@liberum.com

Nick Worthington

+44 (0)20 3100 2106
nick.worthington@liberum.com

Mark O'Hara (Head of Sales Trading)

+44 (0)20 3100 2061
mark.o'hara@liberum.com

David Thompson

+44 (0)20 3100 2062
david.thompson@liberum.com

Alternative Execution

Dominic Lowres

(Head of Execution Strategy)

+44 (0)20 3100 2103
dominic.lowres@liberum.com

Rhys Henry

+44 (0)20 3100 2119
rhys.henry@liberum.com

Cameron Symes

+44 (0)20 3100 2109
cameron.symes@liberum.com

Agency Trading

Simon Warrener

+44 (0)20 3100 2108
simon.warrener@liberum.com

Matt Hudson

+44 (0)20 3100 2063
matthew.hudson@liberum.com

Market Making

James Cass

(Head of Small & Mid Cap Trading)

+44 (0)20 3100 2205
james.cass@liberum.com

David O'Gram

+44 (0)20 3100 2201
david.ogram@liberum.com

Marc Wilkinson

+44 (0)20 3100 2206
marc.wilkinson@liberum.com

Peter Jennings

+44 (0)20 3100 2207
peter.jennings@liberum.com

Peter Turner

+44 (0)20 3100 2203
peter.turner@liberum.com

STX 77440

+44 (0)20 3100 2200

Retail Execution

Stuart Rutherford (Head of Retail

Execution Services)

+44 (0)20 3100 2110
stuart.rutherford@liberum.com