

4 April 2022

Corp

Ticker GEM:AIM

Mining
Shares in issue (m) 1,169.8
Next results FY Mar

Price 18.5p
Target price 25.0p
Upside 35%

Market cap £216.4m
Net debt/(cash) -£48.1m
Other EV adjustments £0.0m
Enterprise value £168.2m

What's changed? From To
Adjusted EPS 2.3 n/c
Target price 25.0 n/c

Share price performance



%	1M	3M	12M
Actual	30.3	39.6	164.3

Company description

The company mines for rubies in Mozambique and emeralds in Zambia.

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GEMFIELDS*

Exceptional emerald auction result

Gemfields has announced an outstanding commercial quality (CQ) emerald result of US\$42m. It is an all-time Kagem record and nearly double the revenue of the most recent CQ emerald auction in August. Management's description of a step-change in the market has now been evidenced by four consecutive record-breaking auctions.

The stronger demand (and pricing) is due to >10 years of consistent Gemfields supply – volumes, quality and grading. This enables a wider range of jewellery retailers, potentially including large General Retailers, to develop emerald and ruby jewellery lines.

This morning's result also shows the probable value of future CQ ruby auctions. Gemfields doesn't yet sell CQ rubies, but will do once the second wash plant is built (commissioning targeted 1Q23). Given rough ruby prices are generally higher than emerald, we see potential for CQ ruby auctions of a comparable size or even larger.

- **Four records in a row:** Gemfields has now delivered four consecutive auction records – August's CQ emerald auction was a short-lived record of US\$23.1m, December's HQ record emerald revenue was US\$37.8m and December's MQ ruby auction generated a record US\$88.4m.
- **56 companies bid:** the announcement notes that 56 companies placed bids, demonstrating a positive trend, more than doubling the participants over three years. The number of companies bidding at the last six CQ emerald auctions were 22 (July 2018), 24, 34, 29, 49 and 56.
- **Adrian Banks statement:** This auction "represents one of the most momentous outcomes I've experienced in my 23-year career". Referring to Gemfields' improving market: "today's result underscores just how big that step-change is".
- **Revenue forecast unchanged:** Despite higher-than-expected revenue, it is a bit too early in the year to increase our US\$251m full-year revenue forecast. The risk is clearly to the upside. Gemfields has six auctions planned for FY22 (Y/E Dec).
- **A second Montepuez plant** will produce larger volumes of medium and high-quality rubies, as well as a new commercial quality product. The second plant will also allow lower grade (carats per cubic metre of gravels) areas to be mined, while ensuring high gross profit margins are maintained. Capex for the 2nd wash plant is cUS\$50m, mostly invested this year.

Key estimates		2018A	2019A	2020A	2021A	2022E
Year end:		Dec	Dec	Dec	Dec	Dec
Revenue	\$m	206.1	216.2	34.6	257.7	251.3
Adj EBITDA	\$m	54.2	69.6	-33.2	125.2	101.6
Adj EBIT	\$m	23.5	34.8	-54.2	99.8	70.1
Adj PBT	\$m	14.7	30.3	-60.0	96.6	68.7
Adj EPS	c	-3.2	1.1	-6.3	4.0	2.3
DPS	c	0.0	0.0	0.0	0.0	1.7

Key valuation metrics		2018A	2019A	2020A	2021A	2022E
EV/EBIT (adj)	x	9.4	6.3	-4.1	2.2	3.1
P/E (adj)	x	-7.5	21.4	-3.8	6.1	10.5
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	7.1%
Free cash yield	%	-10.8%	0.9%	-11.2%	29.4%	9.1%
Pre-tax ROCE	%	3.9%	5.5%	-10.0%	17.2%	12.1%

4 April 2022

Corp

Ticker SCE:AIM
Industrial Engineering
 Shares in issue (m) 195.2
 Next results H1 Sept

Price 55.5p
 Target price 80.0p
 Upside 44%

Market cap £108.3m
 Net debt/(cash) -£11.4m
 Other EV adjustments £0.0m
 Enterprise value £96.9m

What's changed? From To
 Adjusted EPS 0.3 0.3
 Target price 69.0 80.0

Share price performance



%	1M	3M	12M
Actual	20.7	4.7	-27.5

Company description

Manufacturer of carbon fibre reinforced brake discs for automotive

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► SURFACE TRANSFORMS*

FY2021 in line, all eyes now on FY2022 and beyond

SCE has announced full year results to end December 2021, which are very much in line with expectations. Revenue increased +21% y-o-y largely due to an increasing flow of prototype parts to prospective OEMs and start of production of the Aston Martin Valkyrie. The year end order book was £115m (since increased to £185m), while year end gross cash was £13m. This leaves the business in a strong position to execute on the rapid ramp up in revenues now forecast. We are not materially changing forecasts, but given we now perceive much reduced commercial risk we are increasing our target price to 80p/share (from 69p/share).

- **FY2021 results essentially as expected:** Revenue for the year increased +21% to £2.4m, largely due to increasing flow of prototype parts to prospective OEMs and initial volumes to the Aston Martin Valkyrie, while near-OEM and retrofit continued to hold up well. The order book increased to £115m at year end (from £45m at December 2020), but has already increased substantially from there in FY2022 thanks to the recent contract award from OEM 8. SCE recorded an EBIT loss of £4.3m, in line with our expectations. After adjustments of -£300k and receipt of an R&D tax credit of £600k, the net loss was £4.0m. The company ended the year with gross cash of £13m, £2m ahead of our expectations (due to capex phasing), leaving it in a strong position to execute on its capacity growth plans.
- **Strong recent commercial progress:** On 17 August 2021, SCE announced that it had been selected as a tier one supplier of carbon ceramic brake discs to an OEM now known as OEM 10 with lifetime revenues of £20m. On 2 September 2021, SCE announced it had received a follow-on contract from OEM 5 with lifetime revenue of c.€5m. On 16 December 2021, SCE announced a tier 1 supply contract with OEM 6 with lifetime revenues of £45m. Subsequent to the year end, on 24 March 2022, SCE announced a £100m contract with OEM 8 (replacing a £27.5m contract previously announced in September 2020). This has taken the order book to £185m.
- **Valuation increased to 80p/share:** We continue to value the business using a DCF on the assumption of the factory filling to capacity over time (£50m revenue on the current footprint). Previously, the valuation was predicated on the perception of two significant residual risks in the business: i) commercial risk based on limited revenue and order intake to date; and ii) manufacturing scale-up risk, given the business has only produced in small volumes to date. With the large order from OEM 8 (and important follow-ons from OEM 5 and OEM 6), we feel it is now time to drop the commercial risk component, increasing our fair value to 80p/share.
- **Clear pathway for valuation to increase beyond 80p/share:** As SCE demonstrates, its ability to scale volumes during FY2022, we should be able to drop this component of risk as well, which would drive the valuation to 100p/share. We calculate that adding (and filling) capacity to £75m revenue would drive the valuation to 150p/share, with plenty of scope to grow well beyond this level.

Key estimates		2020A	2021A	2022E	2023E	2024E
Year end:		Dec	Dec	Dec	Dec	Dec
Revenue	£m	2.0	2.4	14.5	19.9	30.0
Adj EBITDA	£m	-2.3	-3.6	1.3	3.4	8.3
Adj EBIT	£m	-2.8	-4.3	0.1	1.2	5.8
Adj PBT	£m	-2.9	-4.3	-0.1	1.1	5.6
Adj EPS	p	-1.4	-1.9	0.3	0.9	2.6
DPS	p	0.0	0.0	0.0	0.0	0.0

Key valuation metrics		2020A	2021A	2022E	2023E	2024E
EV/EBIT (adj)	x	-34.5	-22.7	1,100.2	78.7	16.8
P/E (adj)	x	-38.3	-28.5	169.8	60.8	21.4
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-1.5%	-6.9%	-10.3%	-1.5%	3.4%
Pre-tax ROCE	%	-45.3%	-19.0%	0.4%	4.6%	18.1%

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