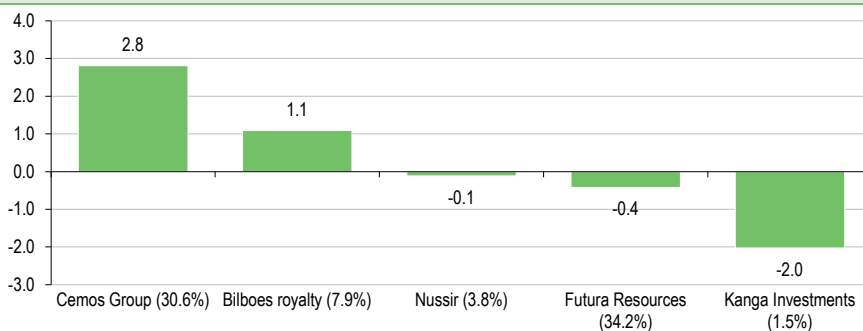


Baker Steel Resources Trust

Interim revaluations bring H124 NAV TR to c 5%

Baker Steel Resources Trust (BSRT) has released its end-June 2024 NAV (following the usual half-year valuation review of its unlisted holdings), posting a 1.8% NAV increase versus end-May 2024, which resulted in an H124 NAV total return (TR) of 4.9%. Major positive drivers included Cemos, a Morocco-based cement producer, and BSRT's royalty over the Bilboes gold project in Zimbabwe (owned by Caledonia Mining Corporation, CMCL). This was partly offset by the fair value reduction of Kanga Investments and share price declines of some listed holdings. Importantly, BSRT's half year revaluations did not capture some recent positive developments at Futura Resources, its largest holding. BSRT's shares currently trade at a c 34% discount to NAV.

Impact of major unlisted holdings on BSRT's H124 NAV total return (pp)



Source: BSRT, Edison Investment Research. Note: Share in end-June 2024 NAV in brackets.

Positive revaluations of Cemos and Bilboes royalty

Cemos was revalued by 11%, driven by rebounding sales in 2024 after a more muted 2023, as well as good construction progress at its clinker plant (see our [previous note](#) for details). The holding is valued based on an EBITDA multiple in reference to two local listed peers, LafargeHolcim Maroc and Ciments Du Maroc. The 16% fair value increase of the Bilboes royalty was assisted by the preliminary economic assessment (PEA) announced by CMCL in June 2024 and the c 13% increase in the gold price in H124. Based on the PEA, CMCL concluded that a single-phase development would provide the best economic return. It expects a new feasibility study to be delivered in H125. BSRT estimates that at the current gold price, its 1% net smelter royalty (which we calculate was valued at c US\$8.6m at end-June) has a c US\$3m income potential pa over the base case 10-year mine life.

Valuation of Kanga Investments reduced visibly

The fair value of Kanga Investments, which holds the Kanga Potash project in the Republic of the Congo, was reduced by 46%, as the project faces challenges in attracting short-term working capital funding (despite interest from potential partners to acquire or finance its potash project, according to BSRT). The lower share prices of CMCL, Silver X and First Tin reduced BSRT's June NAV, though we note that CMCL's shares have risen by 13% so far in July in sterling terms following its Q224 production update, indicating a 19% y-o-y increase in gold production at its Blanket mine to c 17.4koz, with management reiterating the 2024 guidance of 74–78koz.

NOT INTENDED FOR PERSONS IN THE EEA

Investment trusts
Metals and mining

18 July 2024

Price 53.25p
Market cap £56.7m
NAV £86.2m

NAV* 81.0p

*At end June 2024.

Discount to NAV 34.3%

Yield 0.0%

Shares in issue* 107.2m

*Including 700k treasury shares.

Code/ISIN BSRT/GG00B6686L20

Primary exchange LSE

AIC sector Commodities & Natural Resources

52-week high/low 56.0p 33.5p

NAV high/low 81.0p 65.9p

Gearing

Net cash and accruals at 30 June 2024 1.8%

Fund objective

Baker Steel Resources Trust is a closed-end investment company aiming to achieve long-term capital growth through investing in equity, loans and related instruments issued by private natural resources companies. BSRT targets a global, concentrated portfolio of 10–20 investments. Its objective is to create value through driving the development of investee companies, as well as exploiting market inefficiencies and pricing anomalies.

Bull points

- Exposed to project development gains – not a simple beta play on commodity prices.
- Maturing portfolio, with several projects approaching mine construction or production, offering the potential to generate income or exit proceeds.
- Some downside protection is provided by BSRT's focus on realising value from project development, valuations based on consensus forecasts for commodity prices and the use of convertible debt.

Bear points

- The tough funding environment may delay project progress and/or result in fund-raising at depressed valuations.
- Risk of cost overruns due to the inflationary environment.
- High portfolio concentration makes BSRT's performance dependent on a narrow set of assets.

Analyst

Milosz Papst +44 (0) 20 3077 5700

investmenttrusts@edisongroup.com

[Edison profile page](#)

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Latest developments at Futura not fully captured

We note that Futura Resources (the owner of two coking coal mines in Australia and BSRT's largest holding at end-June 2024) has seen 'encouraging' coking coal quality and recoveries from its Wilton mine (where production commenced in March 2024, see our [previous note](#) for details). However, the fair values of BSRT's equity and royalty investment in Futura remain unchanged following the half-year valuation review as more data is needed to justify a reduction in the development risk discounts applied to the valuation model for this holding. The end-June 2024 valuation also does not capture the offtake finance agreed post reporting date to fund the quicker development of Futura's second mine (Fairhill), which the company now expects to move to production in Q424. BSRT highlighted that the above developments will be examined during the year-end valuation review in anticipation of both mines reaching full production in 2025. The company had earlier indicated Futura's EBITDA potential of A\$80–90m upon full production ramp-up, with the mid-point implying an EV/EBITDA multiple of c 1.5x based on Futura's current fair value. This compares with an average multiple of 2.7x for listed peers (Stanmore Resources, Whitehaven Coal, Yancoal and Bowen Coking Coal) based on LSEG consensus for CY25e.

First Tin: New issue and strategic investor

First Tin, the owner of three tin assets (the Tellerhäuser and Gottesburg projects in Germany and the Taronga project in Australia), issued 53m new shares on 10 July 2024, raising c £2.1m in gross proceeds, which will be used for the further development of its projects, as well as general working capital purposes. As part of the offering, Metals X, Australia's largest tin producer, subscribed to 11.5m shares. Moreover, Metals X made an on-market purchase of 60m existing First Tin shares from Clara Resources, which brings Metals X's stake to 23%. We consider the support provided by this strategic investor as testament to the quality of First Tin's assets.

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