

# Baker Steel Resources Trust

Annual review results in a strong NAV uplift

Baker Steel Resources Trust (BSRT) reported an impressive NAV total return (TR) of 29.2% for 2020, visibly ahead of the EMIX Global Mining Index (22.2% TR in sterling). This largely resulted from a yearend valuation review of unlisted portfolio holdings and was driven by a combination of projects moving up the development curve, the rebound in commodity prices (CRB Commodity Index up by 21% in H220) and higher market multiples of listed peers (vs end-June). Key contributors include Cemos reaching full production capacity and Tungsten West being revalued after recent first closing of its £5.0m funding round. Their carrying value almost doubled, adding 8.9pp and 8.0pp to portfolio NAV TR, respectively.

## Considering expansion of the Cemos project

With its first production line fully utilised, Cemos (14.6% of NAV at end-2020) started generating considerable operating cashflow (targeting €8–10m pa). Consequently, BSRT changed its valuation method from historic cost (adjusted for market movements) to EBITDA multiple. Based on a discussion with the investment manager, we understand BSRT does not intend to exit the project in the near term, given the pending decision to build a second production line (which could be completed at the end of 2021 and ramped up in 2022). This could enhance the dividend potential of the business, benefitting BSRT, which holds a mix of equity and convertible bonds (that on conversion would increase its stake to c 32.8%).

## PAL revaluation driven by increase in silver prices

Among other major holdings, BSRT also recognised a 31.3% revaluation of its royalty interest in a silver mine held through Polar Acquisition (11.2% of NAV at end-2020), contributing 3.4pp to its NAV uplift versus end-November 2020. This mostly reflects the higher silver price (up 52% vs end-June 2020). The new valuation also accounts for the pre-feasibility study (PFS) completed in Q320, which resulted in lower production volume assumptions, offset by a reduction in the discount rate applied in the valuation given the project's PFS status (combined, these had a slight net negative effect).

## Trading at a discount below five-year average

In 2020 BSRT's shares traded at an average discount to NAV of c 20%, compared to its five-year average of c 25%. The discount has significantly narrowed by the year-end and turned into a slight premium (1.5%) on 30 December 2020 close, which may suggest investors already anticipated a significant NAV uplift. As such, the immediate share price response to the end-2020 NAV announcement on 14 January 2021 was only a c 10% increase compared to the 27.5% NAV uplift versus end-November, resulting in a double-digit discount to NAV (currently c 14.1%).

Investment trusts  
Metals & mining

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**Price** 82.00p  
**Market cap** £87.3m  
**NAV** £102.3m

NAV per share\* 99.5p  
Discount to NAV 14.1%

\*As at end-December 2020.

Yield 0.0%  
Fully diluted shares 106.5m  
Code BSRT  
Primary exchange LSE  
AIC sector Commodities and Natural Resources

52-week high/low 82.3p 43.8p  
NAV high/low 95.5p 67.3p

### Gearing

Net cash at 31 December 2020 0.8%

### Fund objective

Baker Steel Resources Trust is a closed-ended investment company aiming to achieve long-term capital growth through investing in equity, loans and related instruments issued by natural resources companies, targeting a global concentrated portfolio of 15–20 investments. BSRT's objective is to realise attractive investment returns through valuation gains resulting from development progression of investee companies' projects and through exploiting market inefficiencies and pricing anomalies. It focuses primarily on investing in unlisted companies that the manager deems to have strong fundamentals and attractive growth prospects, offering clear valuation upside.

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## Prospective NAV developments

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### Further near-term progress of key projects ahead

We see a number of potential further important developments for BSRT in H121 among its top holdings. Firstly, BSRT is continuing discussions with a potential buyer of the Bilboes Gold project, its largest holding accounting for 16.9% of NAV at end-2020. Its current carrying value is below the cash offer BSRT received, suggesting a potential uplift on disposal. We note that based on its capital returns policy, BSRT will distribute no less than 15% of aggregate net realised cash gains on exited investments through a tender offer, share buyback or dividend. Furthermore, Tungsten West expects to complete a definitive feasibility study in Q120.

Futura Resources (16.5% of NAV at end-2020) has been delaying the acquisition of a mining licence and production launch in the two Australian coking coal sites, initially due to COVID-19 and a decline in coking coal prices, then more recently amid the geopolitically motivated Chinese ban on coking coal imports from Australia. BSRT revalued Futura at end-2020 upwards by over 20% based on higher peer multiples. Despite low visibility, a possible lifting of the ban or otherwise improved coking coal prices for Australian producers (which have seen an increase of around 30% since the start of the year) might support the move to production stage by Q321.

### Smaller holdings may also assist NAV growth

Several of BSRT's smaller holdings (each representing less than 5% of end-2020 NAV) have important development plans for the year, including the IPOs of Mines & Metals Trading (H121) and Anglo Saxony Mining, securing financing for mine construction by Nussir, a resource update for Azarga Metals and the financing or sale of Sarmin's potash project following completion of the positive definitive feasibility study at the end of 2020. It is also worth highlighting that the gold producer Metals Exploration resumed its AIM listing in Q320 after successful debt restructuring, with its share price reaching 2.28p on 18 January 2021, compared to 0.5p used by BSRT to value the company before relisting. In its Q420 update released on 15 January 2021, Metals Exploration reported a record-high level of gold sold (c 20.3k oz, up 26% vs Q320) and positive free cash flow of US\$13.6m.

For more information on the market background and potential NAV triggers, please see our [note](#) published in November.

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