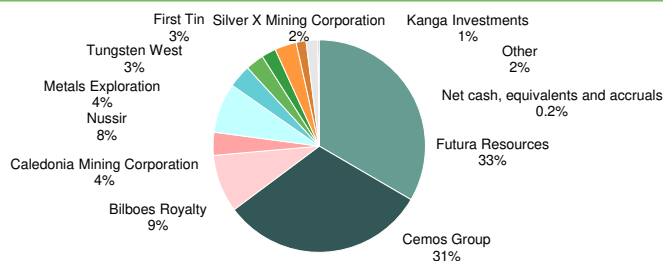


Baker Steel Resources Trust

Significant income getting closer

Baker Steel Resources Trust (BSRT) reported a significant 9.8% increase in NAV per share versus end-November 2024 on the back of the positive revaluation of key unlisted investments (Futura Resources, Cemos Group, Bilboes royalty and Nussir) following the usual year-end valuation review. This resulted in a solid overall NAV total return for 2024 of 16.1%. The continued progress made by BSRT's two largest holdings (Futura Resources and Cemos) increases the likelihood that the trust will start receiving significant recurring income from royalties, dividends and interest income from these assets in the next 12–24 months. While the level of income is dependent on the pace of production ramp-up and the pricing environment, we believe that the trust has the potential to generate an attractive double-digit income yield on its current market capitalisation (its shares now trade at a 35% discount to NAV).

Exhibit 1: BSRT's portfolio at end-December 2024



Source: BSRT data

Futura Resources progressing well

One of the key highlights of BSRT's update was the 12% revaluation (in sterling terms) versus end-November 2024 of its holding in Futura Resources (leading to an increase of 7% vs end-2023). Futura has been ramping up production at its Wilton coking coal mine in Australia in line with its budget. After successfully securing a A \$34m offtake finance arrangement, it also saw encouraging development progress at its second Australian coking coal mine (Fairhill).

BSRT had indicated in its interim 2024 report that Futura expects 1.5–2.0m tonnes pa in saleable primary and secondary coking coal products at a cost of US\$85 per tonne, which would translate into an EBITDA run-rate of A\$90m, based on forward coal price expectations at that time. In the year-end valuations, BSRT adjusted Futura's valuation for the lower near-term coking coal price, currently at c US\$200/tonne in Australia (free on board) versus c US\$330/tonne at end-2023, according to Bloomberg data. That said, we note that the current spot price is close to the long-term consensus price of US\$210/tonne indicated by BSRT in its interim report.

BSRT's exposure to Futura is a combination of a 1.5% gross revenue royalty, a A \$4.6m convertible note with a 21% coupon, and an equity investment equating to a 23.4% stake on a fully diluted basis. BSRT's managers previously stated (based on slightly higher coal price assumptions) that the potential for royalty income alone is c A\$4–6m, which equals 3–5% of BSRT's current market capitalisation. Dividends represent further significant mid- to long-term income potential, though in the short term their level will be dependent on Futura's debt repayment schedule.

Investment companies
Metals and mining

23 January 2025

Price	58.00p
Market cap	£62m
Shares in issue	106.5m
Code/ISIN	BSRT/GG00B6686L20
Primary exchange	LSE
AIC sector	Commodities & Natural Resources
52-week high/low	59.5p 40.8p

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. It 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

- Maturing portfolio, with several projects approaching mine construction or production, offering the potential to generate income or exit proceeds.
- Exposed to project development gains; not a simple beta play on commodity prices.
- 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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Cemos close to completing its compact calcination unit

BSRT's holding in Cemos, a Moroccan cement producer, was revalued by 14% versus end-November 2024 (resulting in a 25% increase vs end-2023). This was supported by a 10% rise in sales in 2024, translating into an EBITDA expectation of €8m for the year, in line with management's previous assumptions. Another positive driver was the progress the company made in its expansion projects: the construction of its compact calcination unit (which should be concluded in Q125) and the second grinding line (which should be installed in 2025 and could lead to a doubling of production); see our [Cemos site visit note](#) for details. On completion of its two major investment projects, Cemos Group plans to adopt a progressive dividend policy, and BSRT's management earlier estimated the annual dividend potential at €3–5m, which would add another 4–7pp of yield to BSRT's current market cap.

Bilboes royalty's fair value up on higher gold price and an updated production profile

BSRT's 1% net smelter royalty in the Bilboes gold project in Zimbabwe (currently owned by Caledonia Mining Corporation, CMCL) was revalued by 24% versus end-November 2024 (and is up 43% vs end-2023), supported by (1) the higher initial production profile resulting from a single-phase development as announced by CMCL in June 2024, (2) the 27% rise in the gold price in 2024 and (3) discount unwinding over the year as the project moves closer to production. BSRT highlighted in its interim 2024 report that at a gold price of US\$2,400/oz (vs the current price of US\$2,700/oz), the company would receive more than US\$3m per year from its royalty. However, this project is at an earlier development stage than Futura Resources and Cemos, with production launch likely after 2026. More details on the project will likely be shared by CMCL upon the release of its revised feasibility study (which CMCL expects in Q125).

Nussir sold to Blue Moon Metals

BSRT also slightly increased its carrying value of Nussir, the owner of a copper project in Norway, following the 91% uplift in November triggered by the agreed sale to the Canadian-listed Blue Moon Metals, in exchange for the latter's common shares (BSRT will hold around 10–12% of its enlarged share capital). Blue Moon Metals fully owns a mining project in east central California, with an NI 43-101 indicated mineral resource estimate of c 3.5m tonnes with a grade 11.07% zinc equivalent for c 431m pounds of zinc, 53m pounds of copper, c 200koz of gold and 5moz of silver in the indicated category (and further inferred mineral resources). BSRT's end-2024 carrying value of Nussir/Blue Moon reflects a 30% discount to the deal value to account for the initial lock-up and transaction risk.

CMCL facing cost inflation

The movements in the share prices of BSRT's listed holdings mostly offset each other in December 2024. The share price of CMCL (BSRT's largest listed holding at end-November 2024) continued falling in December after its Q324 results announcement in November, as it reported a decline in adjusted EPS to US\$0.262 from US\$0.299 a year earlier, negatively affected by cost inflation. Its all-in sustaining cost increased up to US\$1,501/oz in Q324 (vs US\$1,268/oz in Q323) due to higher labour and electricity costs, which prompted the management to raise its FY24 on-mine cost guidance for the Blanket mine to US\$950–1,050/oz versus US\$870–970 previously. It recently reported Blanket gold production of c 76.7koz in FY24, in line with the 74–78koz guidance and slightly above 75.4koz in 2023. The company also released production guidance for FY25 at 73.5–77.5koz, affected by mining in lower-grade areas.

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