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Black Iron: Back to Business in the Ukraine

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Iron rich rock at Black Iron's Shymanivske project in Ukraine. Black Iron

In 2014, Black Iron (T.BKI) was really close to initiating construction of its Ukraine iron ore project until a war broke out in the Eastern part of the country at the same time as iron ore prices started to dramatically fall leading the project to go dormant. Now, with iron ore prices rebounding back to longer term levels and the front line in Ukraine holding stable, the company is poised to take another run at bringing this mine into production.

Matt Simpson, CEO of Black Iron, has had a difficult couple of years. “We had a deal with Metinvest, the largest iron ore mining and steel manufacturing company in Ukraine, to put up 50% of the capital required to construct the Shymanivske iron ore mine and a major international trading house seriously considering funding the balance. But the Metinvest deal was struck when iron ore was selling for $95 per ton and it subsequently fell all the way down to a low of $37 per ton in early 2016 before recovering in late 2016 to roughly $80 per ton” said Simpson.

Compounding the drop in the price of iron ore has been the revolution in Ukraine resulting in Russia’s invasion. While this low-intensity war is several hundred kilometres away from Black Iron’s site, its political and economic consequences have been significant. Investor uncertainty has been a big hurdle for Black Iron and, coupled with the fall in iron ore prices resulted in the project going on hiatus. However, as Simpson points out, “The front line of the war has not moved in three years and people outside of the affected areas are just going on with their lives.”

A major change driven by the revolution, is Ukraine’s central bank unpegged the currency resulting in a major devaluation. “When we did our feasibility study,” said Simpson, “the Ukrainian hryvnia was trading at eight to one USD, now it is trading at 27 to the USD.” This has a huge impact on the economics of Black Iron’s Shymanivske project.

“We ran our feasibility with an assumed $95 USD per ton selling price for iron ore, our operating costs were $45 USD per ton, now our operating costs will be substantially lower as seen by other Ukraine miners such as Ferrexpo. For 2016, Ferrexpo reported it cost them only $28 USD to make a tonne of iron ore pellets which cost at least $8 USD more to make than the iron ore concentrate planned by Black Iron." said Simpson.

The project economics for Shymanivske were always very good with an after-tax Internal Rate of Return running 39% in the feasibility study, but this drop in both capital and operating costs, even combined with the currently lower iron ore price, likely makes those numbers even better.

For obvious reasons Simpson pays close attention to the price of iron ore and he sees it staying long term around $80 to $90 USD per ton. "On the supply side the biggest factor is China's reduced production of high-cost domestic iron ore. The big issue in China is curtailing emissions due to their processing of low-grade domestic ores that result in higher emissions per ton of iron ore concentrate. Plus, low-grade ore leads to high-cost operations. China is closing mines where the head grade is in the low teens and the operating costs are well over $100 USD per ton." said Simpson.

On the demand side, the need for steel continues to grow. "Trump wants to complete major infrastructure upgrades plus potentially build a wall with Mexico both of which require steel. China's demand has levelled off a bit but it is still growing from a huge base. The biggest change there is the emergence of major demand for white goods such as washers, dryers, ovens, fridges from the Chinese middle class. India is next on the horizon as its rapidly growing middle class needs better housing and its Prime Minister, Narendra Modi, is sorting out a lot of issues to make doing business easier." said Simpson.

Black Iron, while it dramatically scaled back operations for the last two years, has none the less advanced its project. "There were two big developments which we recently press released," said Simpson, "first, we resolved a long outstanding, unfounded, legal environmental issue and second, the local city council granted approval to initiate a land allotment process for the future lease of the surface rights we need. This required public hearings and it's a huge step towards getting a mine into production."

In light of the recent rebound in iron ore prices coupled with confidence that the war in the eastern part of Ukraine is highly unlikely to progress further into the country, Black Iron is exploring options to put the mine into production at this favourable exchange rate.

"Options such as initially processing Black Iron's ore at one of the four nearby iron ore concentrators or building the project in lower cost phases are all being considered. A major advantage Black Iron has over other developing iron ore projects is we don't have a high-cost powerline, railway, town or port to build as they are all already in place with access contracts signed. To justify spending the money to build this infrastructure, many competing projects need to produce close to ten million tons per year to be economic whereas in Black Iron's case we can start off at a few million tons and still be highly economic" said Simpson.

From the investors' point of view, Simpson concedes "Black Iron has been quiet a bit too long. We're trading at 25% of our comparatives being primarily much higher cost projects in the Labrador Trough of Canada or Western Australia."
With six million dollars in its treasury, Black Iron is able to get moving again. "2017 is going to be an exciting year for investors as my team reviews various options to get into production quickly and at low cost; works to secure surface rights for the Shymanivske ore body; and furthers discussions with the Ministry of Defence to secure a parcel of land for storage of waste rock and plant construction."

"The thing to remember about Black Iron," said Simpson, "Is that we are more like a brownfield rather than greenfield project. We are literally surrounded by iron ore mines and concentrator plants. We have an inexpensive, highly skilled workforce nearby along with confirmed access to rail, port and power that allows us to get into operation at a much lower cost and in a shorter timeframe as compared to other development projects."

If iron ore prices continue to hold at current levels, Black Iron is in a position to take full advantage. It is back to business in the Ukraine.

At time of writing Black Iron was trading at $0.11 with 159.74 million shares outstanding for a market cap of $19.17 million dollars.

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