London's African mining adventure continues

Africa has always had a special relationship with London and Britain, with that bond stretching beyond just mining.

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Africa continues to attract London investors

Institutions, family offices and private investors have been investing in Africa-focused vehicles for decades looking to leverage off the young continent's riches.

Today, the world may appear that much smaller, but time zone and logistical advantages, a proliferation of English law and oodles of available cash for the right venture, mean London is still the obvious place to list an Africa-focused company.

Yet, choosing this route does not guarantee a good African project gets permitted, funded and starts producing.

It takes an almighty amount of dedication and resilence to make things work on the continent.

"There are very few occasions - in my experience - where there have been easy wins in Africa, there's nearly always a less well-known backstory featuring a driven, insightful and technically astute team that worked tirelessly to create value, backed by insightful long-term investors," Altus Strategies CEO Steve Poulton told *Mining Journal*.

Poulton would know. He and his fellow management team at project generator Altus have founded 18 resource companies and been involved in assets in the majority of Africa's 54 countries at some point during their development.

As with all mining successes globally, timing is everything.

"To have a success story in Africa, you need to be patient and acutely aware of the mining cycle, as well as the likely direction of travel of regional geopolitics. Ultimately you need to make sure you own the right asset when the market wants that asset," he said.

The reason this is the case in Africa, more so than anywhere else, is down to a few realities of investing there.

The majority of companies making a living out of Africa emphasise the amount - or lack of - exploration that has taken place over many parts of the continent. This is a plus in many cases, with many parts of the continent continuing to yield shallow, high-grade discoveries.

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Yet, this exploration deficit means infrastructure is not as developed as it would be in regions scoured over for decades, if not centuries, by geologists and miners.

Having paved roads and access to power or water are seen as major wins for companies exploring in Africa. If there is a port within reach, it could be a game changer.

In gold, diamonds and other commodities where one is not regularly transporting tonnes of product for export, or shipping in massive mills, excavators or haul trucks for the build and operation, it is not as crucial, hence the proliferation of such mines on the continent.

In bulk commodities, this infrastructure deficit often means African projects are marginal, though, working only in a high commodity price environment.

The West African iron ore industry is a perfect example of this - one day it looks highly profitable, the next, when Chinese steelmakers decides to slow down its buying activities, it is sub-economic.

The next ‘reality’ is only true in certain parts of the continent.

Africa-focused exploration and mining companies are at the behest of the government in the jurisdiction they operate in, as any company is across the globe.

They sign long-term development agreements with governments meant to govern their projects for the duration of their life and - in many cases - years after mining has stopped.

The fact is, these long-term contracts are not always honoured by new governments, with Africa having more than a few examples to back up the point.

Guinea, for example, was a hotbed for bauxite, gold and iron ore exploration only a few years ago with the likes of Rio Tinto, Vale and BHP all having projects there.

A change in government bought in a review of all mining contracts signed previously and suddenly many companies that thought they were operating on safe ground were not.

That isn't to say a change in government is always bad; far from it.

For example, Hummingbird Resources managed to work up one of the largest gold resources in West Africa at its Dugbe gold project in Liberia after the introduction of a new transition government in the country in 2005 following years of uncertain and volatile military rule.

And even a stable government can change the rules of the game unexpectedly.

Tanzania, for example, is a very different investment proposition today to what it was a year ago before an export ban on unprocessed materials was introduced.

The last ‘reality’ to mention is permitting.

Depending on where a company is operating, permitting can involve various facets of government and different amounts of paperwork and consultation.

While there are perceived risks around getting hold of permits in Africa, real ones also exist.

Certain countries are either reliant on legal frameworks based on investments in a different sector - quite often oil and gas - do not have the administrative facilities available to handle permitting applications, or suffer from corruption.

One, or a combination of these factors, can lead to delays in receiving permits and uncertainty around if an application will be approved. Both can result in increased holding costs for companies and, in some cases, project failures.

Serial successes

Yet, for all of this downside, there are several examples of companies that have set up Africa-focused vehicles and made serious money for shareholders in the UK.

Randgold is the shining example.

Now also listed on Nasdaq, the company is one of the most profitable plus-1 million ounce per annum gold producer goings. It has mines in Mali, Cote d'Ivoire and the Democratic Republic of Congo and is looking to add to that with its Massawa project in Senegal.

It has been able to juggle perceived political risk and manage an operationally-sound business that hinges on a strict investment hurdle rate protecting it from even the most severe gold price drops.

Anglo American is another African champion having profitably mined coal, diamonds, iron ore and platinum from the continent for many years. Vedanta Resources, too, has made a good fist of operating in Africa with its copper and zinc mining business.

here are also a plethora of diamond miners - Petra, Gem and Firestone - that have acquired or successfully built diamond mines in various parts of Africa, while Kenmare Resources, after a few near misses, is making money from its mineral sands operations in Mozambique, as is Base Resources in Kenya.

Yet, as Poulton said, there are few easy wins in Africa.

One company that has seen it through from almost start to finish and can be called a major success on pretty much every front is Centamin.

Yet, the Centamin of today is very different to the one that started out.

It was formed in 1970 with an Australia listing before, in 1999, acquiring Pharoah Gold Mines (PGM) and focusing on Egypt. In 2001, the company came to AIM and, in 2005, was granted a 160 square kilometre exploitation lease over Sukari in the eastern desert.

In June 2009, it poured first gold from the mine, 10 years after getting hold of PGM and, later that year, was promoted to the main board of the LSE.

While the company is now a 500,000 ounce per annum gold producer from Sukari, it was a trailblazer in Egypt. It had to find something of significance in an underexplored area, overcome the problems of operating in a jurisdiction used to oil and gas, raise money for a venture that had many doubters and develop all of the infrastructure needed for the country's first modern gold mine.

"I would say they (Centamin) are an excellent example of the returns available to investors by backing a world-class management team looking for world-class assets in Africa," Poulton said.

Adapting to Africa

A more recent success - hopefully *Mining Journal* is not speaking too soon - is Hummingbird.

Hummingbird didn't go the Centamin way to find success. Its route was slightly more circuitous.

The company came to AIM in late-2010, raising $47 million as part of its IPO when gold was trading around the $1,400 per ounce and heading even higher.

Its story started a lot earlier though. After being formed in late-2005, it entered Liberia looking to take advantage of some political stability in the West African country, hoping its links to the gold refining and smelting business could provide opportunities in the sector.

It ended up happening on a geologically-interesting asset on the prolific Birimian Greenstone Belt that it soon came up with a plan to explore, develop and, eventually, produce gold from.

Dugbe became the biggest gold deposit in Liberia after delivering a 4.2Moz resource grading 1.4g/t Au. Hummingbird managed to work this up within four years of listing on AIM.

By the time the company had come up with such a resource, the gold price had fallen off its perch and the market had moved on.

I think a lot of junior companies would, frankly, have gone bust

"We found all that gold in Liberia - and we still have it - but then the market started tanking and it became apparent we were not going to be able to fund such a big project (a 3.5 million tonne per annum operation costing $212 million to build) at the time," CEO Dan Betts told *Mining Journal*.

"I think a lot of junior companies would, frankly, have gone bust," he said.

But, just as a change of market conditions (read: falling prices and a declining risk appetite from investors) set in, Hummingbird managed to pick up a project in a more established jurisdiction that it could redesign, fund and develop.

It ended up paying Gold Fields $20 million for Yanfolila in Mali; a project that was deemed non core by its much bigger gold peer, but worked for a first-time developer.

"We were quick enough to realise we needed a new strategy and bold enough to execute one," Betts said.

It turned what was a 1.8Moz resource grading 2.8g/t into a development-ready project within a matter of months. It upgraded the resource to 2.2Moz, reduced the plant throughput from 3Mtpa to 1.2Mtpa and laid out plans to produce 107,000ozpa at an all-in sustaining cost of $695/oz.

But, even after it got hold of the project and downsized it, it was still not plain sailing.

The company had to complete the biggest equity raise for a gold-focused company on AIM for four years and, a year later, renegotiate a debt facility at the last minute in order to fund the $79 million capital expenditure bill.

Yanfolila Hummingbird is on the cusp of producing first gold at Yanfolila

This adaptation has put Hummingbird in line to become a gold producer in the next month, completing a journey that started off in another country in a very different market.

Companies such as Cora Gold, Kefi Minerals and Altus - the next potential success stories in Africa out of London - should keep hold of this example when weighing up their future.

It might not be as drastic as acquiring another asset when market sentiment swings, but one needs to have options when operating in these frontier destinations.

Fortunately, Africa comes with plenty of opportunities that are just waiting to be picked up.