

## S.P. Angel – Morning View – Friday 07.03.14

**Equatorial Resources (EQX AU) – Comments on Mayoko by Exxaro point to lack of clarity on rail and port arrangements**

**Exxaro Resources (EXX SJ) – Results and Update on Mayoko Project Highlight lack of clarity on rail and port arrangements**

**Global Resources Investment Trust (GRIT) – GRIT starts trading on LSE as junior miners show signs of recovery**

**Stratex International\* (STI LN) Buy, Target 12.1p – Near term gold production and Dalafin discovery offers prospects for new value**

### Economic View

<b>Dow Jones Industrials</b>	<b>+0.38% at</b>	<b>16,421.89</b>
<b>Nikkei 225</b>	<b>+0.92% at</b>	<b>15,274.07</b>
<b>HK Hang Seng</b>	<b>-0.19% at</b>	<b>22,660.49</b>

### Economic news

**US** – Feb non-farm payrolls are due later today with estimates for the economy to have added 149k jobs, up on poor Jan (113k) and Dec (75k) numbers.

- Unemployment rate is forecast to hold at 6.6%.
- Payroll additions have averaged 205k per month in the year through Nov/13, before falling significantly in Jan/Feb.
- Factory orders fell more than forecast in Jan (-0.7% v -0.5% expected) with Dec numbers revised downwards (-2.0% v -1.5% previous estimates) as the manufacturing sector battled with high unsold inventories and bad weather.
- Previously, a separate report showed the manufacturing PMI that tracks industrial performance fell to 51.3, the lowest since Jul/13, in Jan.
- Weekly unemployment claims declined sharply to the lowest in three months as layoffs eased in Feb. 323k people applied for the unemployment benefits in the week ending last Saturday, down from 349k (revised from 348k) in the previous week. Estimates were for 336k.

**China** – The first domestic corporate default in recent history has been recorded today as a solar power utility company missed its interest payment.

- Reluctance of the government to step in and bail out the corporate is a positive sign and step forward towards a liberalised capital market.

**UK** – FT estimates based on the models used by the OBR show the budget deficit may come £20bn more than previously forecast for the 2013-14 financial year.

- The difference arises from the actual £111bn (FT estimates) and the cyclically adjusted deficit of £85bn guided for by politicians.
- An upwards revision to previous estimates may translate into additional year of budget cuts or tax increases with austerity policies potentially continuing through 2020.
- Tight finances are then likely to affect campaign-led promises by competing parties ahead of general elections scheduled for May/15.

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**Russia** – Rubble and stock markets fell yesterday on the news the Crimea will hold a referendum on its plans to join Russia.

- MICEX and RTS stock indices have fallen -11.4% and -19.7% year to date, respectively.
- Rubble is off 9.7% since the start of 2014.

**Ukraine** – Crimea's parliament have moved the date of the region's referendum to March 16 regarding the breakaway from Ukraine and joining Russia.

- Previously, the plebiscite was scheduled for March 30.
- Local parliament has already announced its approval of the move.
- Kiev declared the proposed referendum illegal with plans to ban the vote, disband the parliament and hold snap elections.
- US and EU have blamed Russia for its intervention in Ukraine and promotion of the Crimean referendum questioning the de-facto independence of current region's parliament.
- The US has issued bias bans on Russian and Ukraine officials who are considered to be involved in the push for Crimean separation.
- The US Congress has approved (385-23) a US\$1bn loan guarantee to Ukraine yesterday with more financial aid intended to be released through the IMF.

**US\$1.3871/eur vs 1.3726/eur yesterday. Yen 102.91/\$ vs 102.76/\$. SAR 10.608 \$ vs 10.664/\$. \$1.675/gbp vs 1.672/gbp**

### **Commodity News**

#### **Precious metals:**

**Gold US\$1,348/oz vs US\$1,333oz yesterday**

- SPDR gold holdings remained unchanged at 803.7t (25,840oz) valued at US\$34.7bn yesterday.

**Platinum US\$1,479/oz vs US\$1,474/oz yesterday**

- The union will stand firm on its demands for the pay increase, the AMCU said yesterday.
- Protesters demand a more than double increase in basic monthly wages, which companies have already described as unaffordable.
- The gap between the union and Amplats, Implats and Lonmin offers remains wide, the state mediator said on Mar 5.
- As companies operate under "no work no pay" agreement with miners we wonder how long will demonstrators last without pay. Strikes started on Jan 25 and have been going on for 6 weeks now.

**Palladium US\$777/oz vs US\$773/oz yesterday**

**Silver US\$21.36/oz vs US\$21.12/oz yesterday**

#### **Base metals:**

**Copper US\$6,977/t vs US\$7,021/t yesterday**

**Aluminium US\$1,790/t vs US\$1,769/t yesterday**

**Nickel US\$15,369/t vs US\$15,190/t yesterday**

**Zinc US\$2,090/t vs US\$2,099/t yesterday**

**Lead US\$2,129/t vs US\$2,120/t yesterday**

**Tin US\$23,200/t vs US\$23,150/t yesterday**

#### **Energy:**

**Oil US\$108.2/bbl vs US\$107.8/bbl yesterday**

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**Natural Gas US\$4.629/mmbtu vs US\$4.593/mmbtu yesterday**

**Uranium US\$35.00/lb (06/03/14) vs US\$35.00/lb (05/02/14)**

**Others:**

**Iron Ore - US\$116.9 (06/03/14) vs US\$116.7 (05/02/14) 62% Fe spot (cfr Tianjin)**

### **Company News**

**Global Resources Investment Trust (GRIT) 100 pence, mkt cap £39m – GRIT starts trading on LSE as junior miners show signs of recovery**

- Sam Hutchins and his team today launch 'GRIT' the Global Resources Investment Trust onto the market
- Anthony St John, Haruko Fukuda, Simon Farrell and James Williams are GRIT directors and bring much expertise to the board
- Sam Hutchins and Kjeld Thygesen are the Investment Managers through RDP Fund Management LLP
- Merfyn Roberts and Miles Thompson bring significant expertise to the Advisory Panel
- The fund is formed of 43 smaller resources companies gained through investment and a series of share swaps with the fund.
- The portfolio is spread across junior mining and oil & gas with stocks listed in the UK, Canada and Australia.
- The fund is well spread across commodities but is naturally weighted towards gold at 30%, oil 10%, copper 10% and coal 21%.
- North America at 26% is the largest area of operation for companies in the portfolio followed by Australia 14%, Kyrgystan 14% and Russia 13%.
- Weightings will be skewed by the success of companies in each segment.
- **Prospects:** portfolio performance is so often generated in higher risk sectors by a few star performers. GRIT has a number of key stocks which appear to offer potential for star performance with companies like Alhambra, Anglo African Minerals, Mineral Mountain Resources, Tirez and Waterberg Coal.
- **Adding value:** The GRIT team have been working with junior miners for many years now, perhaps more than we care to remember, and should be able to add value by directing companies to adopt better strategies going forward. The fund holds more than 15% holdings in 22 of its stocks and as a major shareholder is well placed to push through change.
- **Timing:** we reckon the timing of the GRIT fund as opportune and brilliant with Junior company values seen at low levels and offering good potential for recovery.
- **Funding:** GRIT has raised £5m through the issue of convertible notes for working capital and investment purposes.
- The fund should give broad exposure for investors to sector momentum and offers good potential if just a few of the underlying stocks show star performance.
- If the fund is able to shake up management in some of its key holdings to cut costs, create focus and generate value in underlying assets then we could look forward better value ahead. It takes a skilful team to create better rationale for investment but when it is done and the market recognises new value then the fund and its co-investors could all be winners.

**Conclusion:** The launching of the GRIT fund appears well timed. The combination of expertise with this broad portfolio of junior stocks creates the opportunity to shape up the underlying stocks and shake out new value. We look forward to watching the fund progress going forward.

**Equatorial Resources (EQX AU) A\$0.53, A\$64.8m – Comments on Mayoko by Exxaro point to lack of clarity on rail and port arrangements**

- Equatorial currently have a mining licence application for their Mayoko-Moussondji project which is next to Exxaro's Mayoko iron ore project in the ROC.
- Both Equatorial Resource's Mayoko-Moussondji and Exxaro's Mayoko project need to use the existing railway line to the deepwater port of Pointe-Noire.

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- The railway is owned and operated by the state owned Chemin de Fer Congo-Ocean (CFCO) and the Port Authority of Pointe-Noire (PAPN).
- As part of the Mining Licence application, the company has submitted to CFCO and PAPN detailed term sheets to form the basis of commercial agreements in relation to the export of iron ore.
- These are said to include framework agreements with CFCO and PAPN and reflect the commitment to multi-use open access infrastructure arrangements.
- It is also said to acknowledge Equatorial's initial transport requirements for initial production of 2 mtpa.

**Conclusion:** Exxaro on its results announcements have stated that they are unwilling to spend any more funds on their Mayoko project in the Republic of Congo till they have further clarity on rail and port usage.

We are surprised to see this as our understanding was that both the convention signed by Exxaro on their project and the pending application by Equatorial had term sheets on rail and port usage. The current rail facility needs to be upgraded before it can ship any meaningful quantities of a bulk commodity such as iron ore. The upgrade will require re-opening of passing loops as well as installation of a rail loop at Mayoko. The understanding was that Equatorial and Exxaro will pay for the required upgrade but this will be treated as a pre-payment by the rail operator CFCO.

Equatorial completed a final railway study at the end of 2012 (well over a year ago) which was submitted to the CFCO and have an implied tariff on rail use of US\$13.7/t in their scoping study.

This underscores our view that infrastructure in terms of rail and port which often constitute a key part of capex of West African iron ore projects (around 70% of capex) and opex (33% for the Equatorial project) and are integral to capturing the NPV of these projects.

The Equatorial project is small and we see partnership arrangements with Exxaro as important in improving the commercial viability of the project against a weakening backdrop for iron ore prices.

### **Exxaro Resources (EXX SJ) R 15,016, Mkt Cap R 53,773m – Results and Update on Mayoko Project Highlight lack of clarity on rail and port arrangements**

- The CEO Siphon Nkosi updated on Mayoko at the results presentation.
- The company say they will not allocate more funds for its iron ore project until it has finalised commercial agreements on the usage of rail and port.
- Exxaro have spent R2bn (US\$188m) following the acquisition of African Iron in 2012 for
- The company has secured a memorandum of understanding with the Congolese rail and port authorities.
- Headline earnings at the company were up 4% at R5,194m due to a 32% increase in the coal business.
- A total R 4,764m was spent on capex over the period with R3,507m spent on new capacity and the balance on sustaining and environmental capital.
- Of the funds spent on new capacity R1,812m (\$171m) or 52% was spent on the Mayoko project.

**Conclusion:** Having spent US\$188m on the project and buying African Iron at US\$388m, Exxaro are rightly putting their foot down on any further expenditure on the Mayoko project till they get further clarity on the commercial arrangements for the railway and port. Exxaro had hoped to start producing from this project as early as Q4 2014 at a rate of around 2 mtpa with ambitions to grow this output to 10 mtpa over time.

Equatorial Resources also have ambitions to use the railway line and said in a RNS in October (see below) that rail and port access had been formalised.

- Commercial terms for use of the railway and port will be applied in a consistent manner among mining companies.
- The Ministry of Transport of the Republic of Congo has confirmed that Equatorial's transport requirements for the initial 2Mtpa project are understood and has provided assurances that the state owned rail and port authorities will be able to assign available capacity for transport, storage, and ship loading.
- Confirmation of Equatorial's access to rail and port infrastructure for Mayoko-Moussondji provides a strong platform to advance discussions and negotiations with potential strategic partners and financiers.
- Equatorial continues to explore opportunities for collaboration and partnership in order to fast track the financing and development of Mayoko-Moussondji.

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### **Stratex International\* (STI LN) 4 pence, Mkt Cap £19m – Near term gold production and Dalafin discovery offers prospects for new value**

#### **Buy - Target price 12.1p**

- Stratex today publish an operational update on the range and development of their near production and exploration operations.
- The company hope to see gold production from their joint venture project at Altintepe in Turkey.
- Further news flow is expected from the Dalafin gold discovery in Senegal where we think good progress is being made.
- We see good potential for results from Ethiopia and Djibouti and more speculative potential from the Tembo Gold deal in Tanzania and from exploration in Liberia. All offer the prospect of interesting results and for potential exploration success this year.
- **Turkey**
- **Altintepe:** life of mine production plan due shortly on updated gold mine plan
- **Muratdere:** pit optimisation complete. Feasibility study due H2 2014. Pits contain 15mt grading 0.54% copper, 0.10g/t gold with 66% classified as an Indicated Resource
- **Öksüt royalty:** with Centerra Gold, capped value at \$20m. 125,000ozpa gold production planned with commissioning and payments to Stratex due to start in 2016.
- **Senegal - Dalafin** intersections and grades look promising with good potential for further discovery.
- **Liberia – Sinoe** early stage soil sampling. **North Suehn** trenching and soil sampling is not compelling.
- **Ethiopia – Blackrock** good grades offer potential for discovery. **Afar** project may be taken over by Stratex as AngloGold-Ashanti pull back from the joint venture. **Berahale and Tigray** in Northern Ethiopia do not appear to offer mining potential
- **Djibouti – Oklila** prospect shows attractive drill results. Stratex is scheduling logistics with jv partner Thani to start drilling. **Tendaho** project has been relinquished due to inconsistent results.
- **Tanzania – Tembo** IP survey to be used to prioritise targets for new drilling.

**Conclusion:** Stratex are busy on a wide range of projects and prospects. Good and regular news flow is expected and we look forward to adjusting our valuation in recognition of new results from the start of mining in Turkey and on exploration in Senegal.

*\*SP Angel acts as broker to Stratex*

#### **Mining this week:**

**Ferrex (FRX LN) 2 pence, mkt Cap £16.4m – Update on Mebaga Project in Gabon**

**Kefi Minerals (KEFI.L) 2 pence, mkt Cap £17m - Jibal Qutman project JORC resource update**

**London Mining (LOND LN) 90 pence, mkt Cap £124.6m – Group Operating Profit**

**African Copper (ACU LN) 1 pence, Mkt Cap £15m – New mining contractor appointed**

**Atlas Mining – Lower costs fail to offset forex losses and lower copper prices**

**Blue Rock Diamonds\* (BRD LN) 14.25 pence, mkt Cap £4.5m - First diamonds recovered from Kareevlei in South Africa**

**Gem Diamonds (GEMD LN) 170 pence, Mkt Cap £235m – Sale of two large 160 carat stones**

**Glencore – interested in buying Shell oil assets in Nigeria**

**Latin Resources (LRS AU) A\$0.049, Mkt Cap A\$11.4m – Drilling started at Ilo Norte**

**Strategic National Resources (SNRP LN) 7.14 pence, Mkt Cap £12m – Continuing talks with potential funders**

**African Consolidated Resources (AFCR LN) 1 pence, Mkt Cap £9m – 1.02moz gold, JORC 2012, reserve declared at Pickstone Peerless mine**

**Gold (CGH LN) 13.75p, mkt cap £34.4m – Options issue to non-exec directors**

**Glencore Xstrata (GLEN LN) 331 pence, Mkt Cap £42.9bn – Prelims for 2013**

**Ferrex (FRX LN) 1.8 pence, Mkt Cap £15.6m – Final Results**

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**Gemfields (GEM LN) 36 pence, Mkt Cap £194m – Interims**

**Ormonde Mining (ORM LN) 5.75 pence, Mkt Cap £24.2m – Engineering Design Contract awarded for Barruecopardo**

**Sable Mining (SBLM LN) 11 pence, Mkt Cap £118m – PFS for Nimba Project**

**Solgold\* (SOLG LN) 132.5 pence, Mkt Cap £82 – Final Hole 5 assays show continuation of high grade at Cascabel, Ecuador**

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