

Sandfire gets its Mod target



Julian Hanna and Karl Simich

The perceived risk attached to Sandfire Resources NL's \$168 million acquisition of the T3 copper project in Botswana will soon be forgotten once domestic investors learn more about project and country, according to the company's managing director.

Sandfire will become the first established Australian miner to buy an African asset since Newcrest Mining Ltd picked up the Bonikro mine in 2010 if its deal to acquire Mod Resources Ltd is ratified in early October. Sandfire shares dropped on news of the deal in June and managing director Karl Simich was questioned by a sceptical analyst on a subsequent conference call about the risk he was bringing into a company which had built its reputation on an asset in one of the world's most stable jurisdictions, Western Australia.

Simich was clear and vociferous in his rebuttal of that perception. A month later, having begun marketing the deal to investors, he is comfortable the market will eventually fall in line with Sandfire's risk assessment of T3 and Botswana.

"It is actually all about perception because every project in the world has some risk attached; whether geological, engineering, permitting or political," he said. "At DeGrussa [the company's flagship asset in WA], the risk is mine life, at Black Butte [its development project in Montana, US] it is permitting. When people look at T3 and Botswana they would assume some sovereign risk but the political environment is stable and there is a healthy regulatory/permitting framework which is transparent and well-defined. There are no community or First Nation issues and there is huge support from the local community."

Botswana is widely regarded as Africa's most stable jurisdiction – "Africa for Beginners" is the phrase most often used – and Mod managing director Julian Hanna is entirely comfortable with the concept of building a successful operation in the Southern African country, particularly one as simple as T3.

"There is no security risk, it is remarkably stable and it is easy to get around. At the project level it is very flat, open terrain, akin to what we find in Western Australia," he said. "The geotechnical risk is low on the open pit, there is no metallurgical risk and the Ghanzi Highway, which runs right through the project, is better than most highways in WA."

Both Simich and Hanna agree the best way to change perceptions about perceived risk would be to introduce people to Botswana.

"The quickest way to mitigate that perception is to get people into the country to see the project," Hanna said.

Simich has taken on the task of educating investors with his usual enthusiasm.

"It is a process of educating and informing people and articulating the message in a simple fashion so they can absorb it," he said. "People are a bit uninformed about Africa, a bit uncomfortable. Once they understand it better that will change."

Even those Australian investors and analysts familiar with Botswana are likely to retain some preconceived ideas about the company's copper prospects from the last Australian company to forge an operation there.

In the mid-2000s, Discovery Metals was a leader in the burgeoning Australian-African investment scene, building and commissioning the 36,000 tpa copper/1.1 mtpa silver Boseto mine in 2009. In 2012, it rejected an \$830 million takeover offer from Chinese firm Cathay Fortune but less than two years later a bearish copper market conspired with an underperforming plant and poor grade reconciliation to send Boseto into care-and-maintenance.

Discovery was eventually wound up in June 2015 and its cautionary tale has some investors sceptical about the quality of the copper deposits on Botswana's Kalahari copper belt.

Simich said Sandfire's deep due diligence efforts had confirmed what Mod's progress had been suggesting for some time; T3 is a very different orebody to Boseto, located 100km north-east along the belt.

"There is a very clear reason for understanding what happened," Hanna said. "They severely underestimated the extent of the oxidised and transitional ore zones so by the time they got to the fresh rock, it was too late. We are fortunate that the surface calcrete cap on our ground has preserved the sulphides close to surface,

meaning we don't have the challenge of oxides. The realisation of that calcrete layer is one of the big breakthroughs of this project, because it both stopped the oxidation and hid the other deposits from discovery."

Simich said the recent success of Khoemacau Copper Mining – the local subsidiary of private equity group Cupric Canyon Capital – in funding and constructing the Khoemacau project on the belt.

"That is a \$500 million development which is demonstrating both the interest from the investment community and the viability of copper mining on that belt," Simich said. "The beauty for us is that they have only one-third of the belt, Mod has the other two-thirds."

All of which suggests T3 – resource: 60.2mt @ 0.98% copper and 13.9 g/t silver with 36.6mt @ 1.14% copper and 15.8 g/t silver indicated – should be a shoe-in for development. So, why has Mod not taken on the task itself?

Hanna points to the harrowing market conditions for all junior miners, regardless of commodity or jurisdiction.

"T3 was only discovered in March 2016. Prior to that Mod had a \$5 million market cap," he said. "It looked like a mine from the first hole and for the first 18 months the share price was driven by the exploration success and attracted enormous interest. Reality came after that with the scoping study, PFS and BFS and inevitable driving south of the share price as the question about funding the \$250 million market cap began to be raised."

From there, the company was caught between two strategies; press ahead with a \$250 million development in a flat market or park T3 up and look for further discoveries in its 12,000sq km land package.

"Investor sentiment become bipolar, which is a common situation in a flat market," Hanna said. "In a booming market, it wouldn't have been a problem, we could've funded both, but the licence conditions mean we have obligations to meet on each of the licences and the board decided we needed a partner to explore the

region and develop T3.

"We are happy to be working with Sandfire and bring out the best of both teams. Sandfire is the sort of partner we have been looking for."

For Sandfire, the acquisition will bring a much needed second development option as DeGrussa mine life continues to shorten and Black Butte appears to be interminably stuck at the permitting stage.

Simich believes the takeover also offers Mod shareholders the best option for retaining the value which has been built at T3, the stronger financial position of the established miner allowing for greater funding flexibility.

"A capex of \$250 million with a market cap of \$100 million; on that balance sheet debt doesn't come free," he said. "The orebody and the commodity price create an inherent value in the asset, it is then about how you put it together which decides who gets the value. By taking it on collectively, there is the opportunity to maintain more of the inherent value."

T3 would also likely benefit from Sandfire's more extensive corporate infrastructure.

"The skills and attributes Sandfire can bring means we can move this forward positively," Simich said. "Sandfire has a balance sheet fast approaching \$250 million,

multiple recent development experience, a wonderful sales and marketing team and the systems and infrastructure needed. We also have relationships with banks, debt providers, offtakers and marketing groups and new projects will benefit immediately from all of that, essentially at zero cost."

If the deal leads to a cheaper development for T3, it could also act as a catalyst for Sandfire to enter a different investment space. The company has watched its domestic gold cousins turn into the darlings of the international investment community off the back of a string of acquisitions and Simich is now eyeing a similar growth trajectory.

"Sandfire is trying to develop a bigger platform to get into that mid-tier space and T3 is a great platform to leverage off. It provides a very strong foundation block for us to expand into new markets. Being a multi-jurisdictional, multi-mine mid-tier operator is our aspiration," he said.

Hanna has witnessed obvious potential in this regard.

"The five-year downturn in the copper space has created a vacuum of mid-tier

miners," he said. "Nowhere is that clearer than in London – the heartbeat of copper investment – and I think those UK Mod investors are looking upon this as an opportunity to be involved in an expanding mid-cap company."

– Dominic Piper



Mod has put \$40 million into in-ground exploration programmes in and around T3

T3 represents one of the few sedimentary-hosted copper development opportunities in the world