



November 2020

**Market data**

EPIC/TKR	SHG
Price (p)	16.61
12m High (p)	20.50
12m Low (p)	6.00
Shares (m)	1,043.5
Mkt Cap (£m)	173.3
EV (£m)	139.9
Free Float*	93.4%
Market	AIM

*As defined by AIM Rule 26

Description

Shanta Gold operates the New Luika mine in Tanzania. The company is developing two other gold projects in East Africa, including the recently acquired West Kenya project.

Company information

CEO	Eric Zurrin
CFO	Luke Leslie
Chairman	Anthony Durrant
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Key shareholders

Odey Asset Mgt.	17.7%
Hargreaves Lansdown	8.4%
Directors	6.6%
Sustainable Capital	6.5%

Diary

Jan'21	4Q production
Feb'21	FY results

Analyst

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SHANTA GOLD

Entering its sweet spot

Shanta Gold (SHG) is a low-cost, high-grade East African gold miner, which is transforming from a single-asset to a multi-asset producer. Production guidance for its flagship New Luika Gold Mine (NLGM) in 2020 is 80-85k oz. The commissioning of Singida in 2022 will see a resumption of growth from the current plateau. The recent West Kenya acquisition has taken total gold resources to 3.2m oz. After cutting net debt by \$44m since end-2017, SHG raised \$42.1m last month to accelerate development of the ca.100k oz p.a. West Kenya project.

- ▶ **NLGM:** SHG's flagship gold mine has consistently produced 80-88k oz p.a. of gold since 2014. Production is planned to continue to at least 2024, although the current mine plan excludes an additional 531k oz of resources. Furthermore, only three of seven potential deposits are currently in production.
- ▶ **Singida – moving off the plateau:** Construction of the near-surface Singida mine has begun, with commissioning due in 2022 – almost 32k oz p.a. production will increase group production to at least 110,000 oz p.a. Significant upside derives from the 664k oz of gold resources outside the current seven-year mine plan.
- ▶ **West Kenya acquisition:** SHG paid \$14.5m, or a modest \$12/oz, for a project with an estimated 1.182m oz of resources and \$55m of historical exploration. The average gold grade of 12.6g/t is unusually high, bordering on spectacular. A new resource estimate and construction decision are expected within 36 months.
- ▶ **Risks:** SHG faces the normal risks for a junior miner, albeit without the funding risk faced by explorers. These risks include volatility in gold prices, political risks, environmental risks, and operational risks in successfully executing the mining plan and operating downstream processing facilities.
- ▶ **Investment summary:** Our provisional valuation for SHG of 31.7p is based on aggregating our NPV valuations for NLGM, Singida and West Kenya. The valuation incorporates a conservative long-term gold price of \$1,700/oz and a discount rate of 8%. The model currently excludes 1.49m oz of future gold production represented by resources outside the current mine plans.

Financial summary and valuation

Year-end Dec (\$m)	2015	2016	2017	2018	2019	2020E
Sales	95.71	107.14	101.50	103.80	112.80	149.56
Underlying EBIT	-11.13	3.04	11.01	19.26	5.13	39.85
Reported EBIT	-11.13	3.04	11.01	19.26	5.13	39.85
Underlying PTP	-18.11	-4.34	3.55	13.14	-1.19	38.00
Statutory PTP	-18.11	-4.34	3.55	13.14	-1.19	38.00
Underlying EPS (c)	-3.73	-1.47	0.60	1.02	-1.21	1.72
Statutory EPS (c)	-3.73	-1.47	0.60	1.02	-1.21	1.72
Net (debt)/cash	-38.52	-44.25	-39.49	-31.55	-18.99	43.06
Shares issued (m)	472.0	544.3	689.3	785.6	786.0	846.8
P/E (x)	n/a	n/a	21.3	12.7	n/a	7.5
Dividend	0.00	0.00	0.00	0.00	0.00	0.00
Dividend yield (%)	n/a	n/a	n/a	n/a	n/a	n/a

Source: Hardman & Co Research

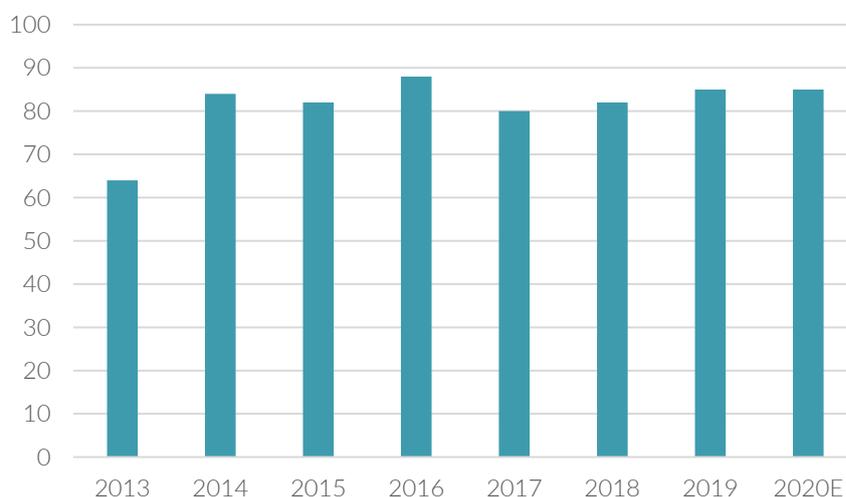
Overview

NLGM has consistently produced at least 80k p.a. of gold

SHG is a low-cost, high-grade East African-based gold producer and development company. The company was founded in 2001 to explore for gold in Tanzania, and was listed on the London AIM market in 2005. SHG's Chairman, Tony Durrant, was formerly Head of Metals & Mining at UBS, and founder, Ketan Patel, is a non-executive director. Eric Zurrin also came from UBS, joining SHG as an adviser to the former CEO; he was then interim CFO in 2015/16, before re-joining the group as CEO in 2017. The CFO, Luke Leslie, joined the company in September 2017, having previously worked for other junior mining companies, UBS and Accenture.

The flagship NLGM, in south-west Tanzania, began production in 2012, and currently has six producing open-pit and underground deposits. During 2014-19, gold production was 80-88k oz, and 2020 guidance is 80-85k oz.

Shanta Gold production, 2013-20E (000s oz)



Source: Hardman & Co Research

Lower half of industry cost curve, and almost free of hedges

The AISC (All-In Sustaining Cost) of production in 2020 is expected to be in the range of \$830-880/oz, putting SHG in the lower half of the industry cost curve. The company has seen a \$43.8m reduction in net debt, to \$0.8m, in the two and a half years since end-2017. Staying with operational considerations, we should highlight that there have been zero lost time injuries at NLGM since 4Q'17. Encouragingly, SHG has been winding down its hedge book. At the end of this year's third quarter, forward sales commitments were 15,000 oz (average price \$1,251/oz). The company expects to be unhedged by January 2021, and will not hedge again.

Latest resource estimate puts group total above 3.0m oz

The recent group-wide reserves and resources update confirmed a total of 3.2m oz, with an average grade of 3.58g/t across NLGM and SHG's two development projects, Singida (Tanzania) and West Kenya.

Shanta Gold – total mineral resources (NLGM + Singida + West Kenya)

	Tonnes (kt)	Au (g/t)	Au (k oz)
Measured	2,609	3.33	280
Indicated	11,344	2.73	995
Total Measured & Indicated	13,953	2.84	1,275
Inferred	13,638	12.60	1,901
Total Resources	27,591	3.58	3,176

Source: Hardman & Co Research

Shanta Gold

With 531k oz of resources outside reserves, NLGM should continue in production well beyond 2024

Singida will move SHG's production off its plateau

Favourable economics and production upside

West Kenya project acquired for \$14.5m

Total group-wide reserves were 653k oz, made up of 410k oz (370k oz recoverable) at NLGM and 243k oz at Singida. Based on reserves alone, the company expects production to continue at NLGM until at least 2025 and likely significantly longer. Total resources outside reserves, but within mining licences at NLGM, amount to 531k oz, at 2.45g/t.

Singida – next growth phase

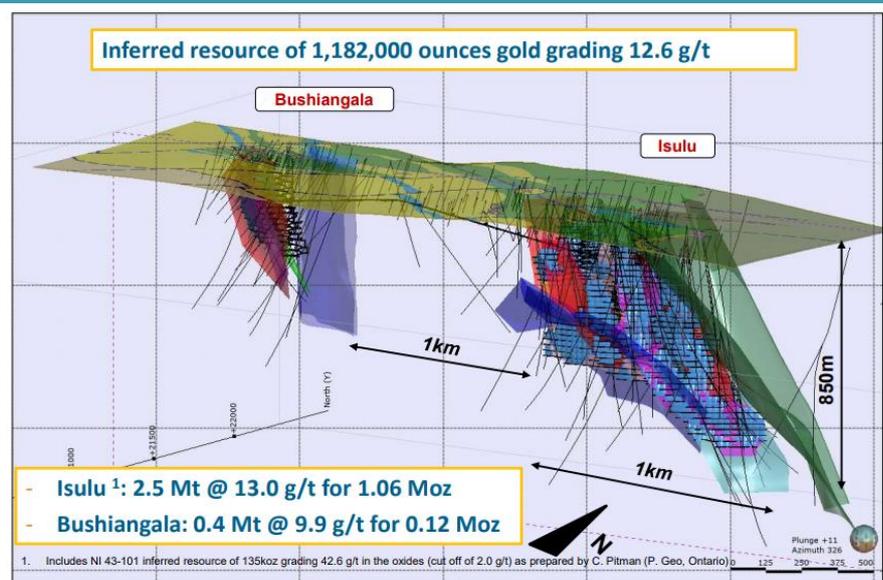
SHG will see a resumption in production growth from the current plateau with the commissioning of Singida, which is expected in late 2022 (we assume the beginning of 2023 – see below). Singida is an open-pit gold project in central Tanzania's Greenstone Belt, covering an area of 98 sq km. The capital cost of construction is \$36.8m, including \$10.4m of pre-production stripping costs. Following the balance sheet deleveraging, the company will finance the project out of operating cashflows.

Based on (gross) reserves of 243k oz at 3.0g/t, the company is currently planning a seven-year mine life, with production of almost 32k oz p.a. More than 90% of the current life of mine (LOM) reserves are located less than 120m from the surface. The cash cost of production is expected to be \$843/oz. SHG has identified an additional 664k oz of gold resources outside of the current mine design (mainly underground), which will be explored after 2022 and offer significant upside versus current project economics.

Recent West Kenya acquisition and funding

SHG announced the acquisition of 100% of Barrick Gold's Kenya gold projects on 10 February 2020, including the (very) high-grade West Kenya project. The consideration was \$7m cash and \$7.5m in SHG shares, and 2% LOM net sales revenue (NSR) covering the project licences. The project covers 1,161 sq km in the Lake Victoria greenstone gold field located in south-west Kenya and north-west Tanzania. This mineralised region, which has produced more than 35m oz of gold since 1990, includes tier 1 assets, such as AngloGold's Geita and Barrick's North Mara gold mines.

West Kenya project – model of inferred resources



Source: Hardman & Co Research

\$55m of historical exploration spend

The case for acquiring West Kenya was compelling:

- ▶ over 1.0m oz of gold resources at a valuation of only \$12.6/oz; and
- ▶ one of the highest grading resources for a project of more than 1.0m oz at 12.3g/t.

Since 2010, exploration work, amounting to \$63m, had been undertaken by the previous owner, including 221,000m of drilling. In addition, 259k oz of gold was extracted from the former Rosterman mine, located 9km from the main site.

Construction decision in mid/late 2023

The current 1.182m oz inferred resource is based on two deposits, Isulu and Bushiangala, with two more prospects targeted for exploration within the 12km long Liranda Corridor. SHG expects the time needed to complete an updated resource estimate and reach a construction decision will be about 36 months, i.e. mid/late 2023.

\$42m raised to progress West Kenya

On 22 October 2020, SHG announced a \$42.1m fundraising – issuing of 194.9m shares at 16.5p (6.8% discount) – which was significantly oversubscribed. As a result, Barrick Gold also sold its 6.4% holding at the issue price as part of this transaction. SHG will use the proceeds for further development of West Kenya, including infill and expansion drilling, and the preparation of a technical report.

Valuation

Valuation based on aggregate valuation for NLGM, Singida and West Kenya

Our provisional valuation for SHG is based on aggregating our NPV valuations for NLGM, Singida (we expect production to begin in 2023) and West Kenya (production from 2026). We have used a conservative long-term gold price of \$1,700/oz, a discount rate of 8% and a tax rate of 37%. At this stage, our estimated cash costs for Singida and West Kenya are those used in the company's mine plans.

Significant production upside

For the time being, we have not assumed any gold production from NLGM and Singida beyond reserves, nor from West Kenya's resources beyond the mine plan in the 2020 scoping study. In aggregate, this excludes 1.49m oz of potential future gold production.

Key assumptions: NLGM, Singida and West Kenya

	NLGM	Singida	West Kenya
Pre-production capital cost	n/a	36.8	\$161.0m
Mine life	4 years	7 years	9 years
Gross reserves in mine plan/NPV valuation	410k oz	243k oz	1,033k oz
Total resources	1,092k oz	659k oz	1,182k oz
Cash cost of production	\$800/oz	\$843/oz	\$582/oz

Source: Hardman & Co Research

Our fair value for SHG is 31.7p, which is summarised in the table below.

Shanta Gold: estimated valuation

(000s)	US\$	£
NLGM	120,434	93,360
Singida	54,917	42,572
West Kenya	208,610	161,713
Add: net cash	43,064	33,383
Total	427,025	331,027
No. of shares (m)	1,043.5	1,043.5
Valuation per share	40.9c	31.7p

Source: Hardman & Co Research

Our valuation above includes estimated net cash of \$43.1m at year-end 2020, mainly as a result of the recent \$42.1m share sale. This is calculated as cash, plus restricted cash, less gross debt (loans, plus leases, plus convertibles). Indeed, we believe that SHG could simplify its gross debt and net debt/cash calculations, and provide improved transparency on finance income/expense in its interim results releases.

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