Vast Resources plc

Vast has a Eureka moment

25 April, 2018

Vast's Zimbabwean group company, Dallaglio Investments has acquired a 95% interest in the Eureka Gold mine in Zimbabwe, providing Vast with a 23.75% economic interest in the mine. The acquisition was undertaken at an inexpensive acquisition price of $4.5m and provides a low-cost addition to the company's portfolio in Zimbabwe. Eureka has a 1.8Mtpa processing plant on care and maintenance offering potential for a low-cost re-start of mining operations.

The transaction. Dallaglio, in which Vast as a 25.01% interest, has acquired a 95% interest in Delta Gold Zimbabwe. The purchase price is US$4.485m, plus historical creditors of Delta Gold of $1.8m are to be paid off by a loan to Delta Gold from Dallaglio. This gives Vast a 23.75% economic interest in the Eureka gold mine.

Funding. The US$4.485m purchase price is to be financed by a loan from Sub-Sahara Goldia Investments ('SSGI') to Dallaglio. SSGI has an effective 24.99% interest in Dallaglio and therefore funding for the acquisition has been sourced by Vast's associated entities in Zimbabwe without recourse to Vast. Vast expects that loan repayments to SSGI and finance of Delta Gold creditors can be met by cash flow distributions from the Pickstone Peerless mine.

Rationale. This represents the first new acquisition with Vast's strategic partners in Zimbabwe for several years, fulfilling one of its priorities to pursue new opportunities in both Romania and Zimbabwe using external funding. The acquisition widens Vast's portfolio in Zimbabwe, through a non-dilutive financing mechanism, and provides a neat use of cash flow from Pickstone, which at present is best used domestically in Zimbabwe.

Vast is ahead of the curve in Zimbabwe, and with its partners, is well placed to seek out and secure further opportunities. The winds of change are already being felt under the new Mnangagwa regime, and early investor-friendly policy changes have already started to bear fruit, e.g. the 51% Zimbabwean ownership requirement has been scrapped. Two large mining deals have already been signed with the government by other operators (lithium and PGMS). The country's geology is highly prospective, yet significant barriers to entry have hampered investment in the mining sector, meaning that there is now likely to be a rush to secure under-explored licences and dormant mining assets.

Eureka has been on care and maintenance since 2008, but a 1.8Mtpa plant (designed for c.70koz pa) remains in place, requiring only minor refurbishment according to Vast. A 2012 NI-43-101 resource estimate indicates 22.3Mt at 1.9g/t Au for 1.37Moz (Vast share 324koz), of which 79% sits in the Indicated category. The grade stacks up well against other African gold deposits, in our view.

ED's View. Based on the low deal cost and 95% of the 1.37Moz acquired, this equates to a very low acquisition cost of $3.45/oz, or $4.8/oz if you include the $1.8m creditors payment. On any basis we view this as an exceptionally cheap acquisition, coming in well below typical gold space M&A deals ($50-$200/oz) and even below typical African gold discovery costs ($10-$25/oz). Vast has not released any development plans, but with a processing plant and infrastructure already on site, we see potential for a very low capital intensity re-start of operations with scope to fast-track Eureka back into production. We wait for further development details but based on the low acquisition cost and processing infrastructure acquired, we believe the deal is likely to be value accretive. Even applying $25/oz, our typical EV/oz resource value benchmark for African developers, implies $32.4m, $8.1m attributable to Vast. We will update our valuation after the release of Vast's Q1 2018 quarterlies.

Company Data

EPIC	VAST
Price	0.62p
52-week Hi/Lo	0.79p / 0.25p
Market cap	£31.8m
ED valuation/share	1.03p
Shares in issue	5,113m
Avg. daily volume	149m

Share Price, p

Source: ADVFN

Company Description

Vast Resources plc is an AIM-quoted resource development company that converted from an exploration company to a mining company in 2015, with two operating mines; the Manaila polymetallic mine in Romania (100%), and the Pickstone-Peerless gold mine (25%) in Zimbabwe.

Vast has several growth projects, the most important being the planned re-start of the Baita Plai polymetallic mine (80%) in Romania, which the company plans to commission shortly.

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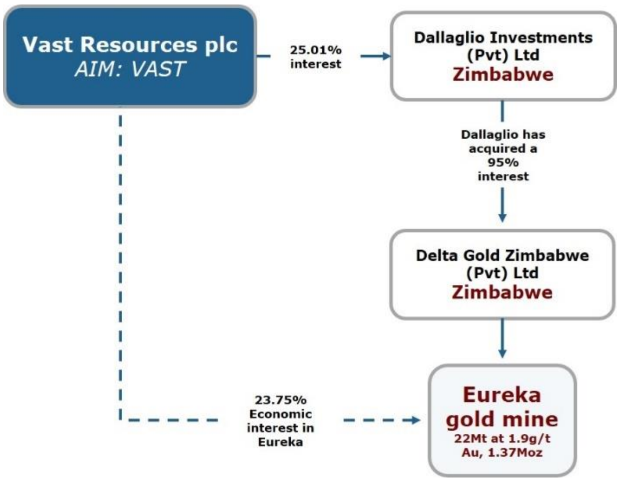
Vast to expand footprint in Zimbabwe

Acquisition of Eureka gold mine

Vast Resources announced (RNS 20th April) that it has acquired a 23.75% economic interest in the Eureka Gold Mine ('Eureka') in Zimbabwe. The acquisition has been undertaken by Vast's Zimbabwean group company, Dallaglio Investments (Pvt) Ltd ('Dallaglio').

Vast will have a 23.75% economic interest in the Eureka mine



Source: ED, Vast

Vast's interest in Dallaglio is 25.01%, and thus Dallaglio's acquisition of 95% of Delta Gold provides Vast with a 23.75% economic interest. A US$4.485m purchase price has been agreed for the 95% interest in Eureka. The interest in Delta Gold is being acquired from Alpha Resources Ltd and the Industrial Development Corporation of South Africa Limited.

Transaction terms

The purchase price is US$4.485m but will be increased by any amount by which the historical creditors are less than US$1.8m. The conditions precedent for the acquisition have already been satisfied. The historical creditors of Delta Gold of $1.8m are to be paid off by a loan to Delta Gold from Dallaglio. Vast expects that loan repayments to SSGI and finance of Delta Gold creditors can be met by distributions from Dallaglio's wholly owned subsidiary Breckridge Investments (Pvt) Ltd from cash flow from Pickstone Peerless mine.

Funding the acquisition

The US$4.485m purchase price is to be financed by a loan from Sub-Sahara Goldia Investments ('SSGI') to Dallaglio. SSGI has an effective 24.99% interest in Dallaglio and therefore funding for the acquisition has been sourced by Vast's associated entities in Zimbabwe without recourse to Vast. Security for the loan is provided by a pledge over 100% of the shares of Dallaglio and over the shares acquired by Dallaglio in Delta Gold.

SSGI is strategic funding partner that has worked closely with Vast in Zimbabwe previously, including the $4m cash deal for Vast's non-controlling interest in Pickstone, and accompanying $4m loan, both in January 2017. Most recently, Vast's offtake deal with Mercuria allowed the company to repay a $1.68m bridging loan from SSGI.

Rationale

The rationale for the transaction is clear and represents the first new acquisition with Vast's strategic partners in Zimbabwe for several years. In its January 2018 outlook statement, Vast stated that it one of its priorities was to pursue new opportunities in both Romania and Zimbabwe using external funding.

Non-dilutive and use of Pickstone's cash flow

Thus, the Eureka acquisition widens Vast's portfolio in Zimbabwe, through a non-dilutive financing mechanism. The financing adds minimal burden to Vast in our view, as it's effectively a pass-through arrangement with the acquisition funds provided by SSGI, with the repayments expected to be met from Pickstone's cash flow. Thus, this provides a neat use of cash flow from Pickstone that due to exchange controls, would likely have to be used domestically within Zimbabwe.

The time is ripe to secure further assets in Zimbabwe

Vast in many ways, is ahead of the curve in Zimbabwe. With an interest in one of only a limited number of operating gold mines in the country, the company is particularly well placed, along with the knowledge of its local partners, to seek out and secure further opportunities.

The combination of political and economic turmoil has not made Zimbabwe an easy destination to operate within over the last decade or so. However, the winds of change have blown in and the political climate is undergoing a major change. The catalyst for this was of course the end of the Mugabe in November last year (see our note "storm in tea "coup", Nov 28th, 2017).

Mnangagwa has pledged investor-friendly policy changes and since the ousting of Mugabe, the investment climate has already changed markedly. Indeed, one of the first actions by the new Emmerson Mnangagwa administration was to revoke the legislation that required all mines (except diamonds and platinum) to be 51%-owned by Zimbabwean entities. We understand that ownership requirements for diamond and platinum assets may also be lifted in the near future.

The draw of Zimbabwe is compelling. The geology is highly prospective and yet the significant barriers to entry and operating for a foreign company in Zimbabwe mean that the country remains under-explored relative to other mature exploration destinations in Africa. Furthermore, there are a considerable number of dormant mines that were put on care and maintenance due to challenging operating conditions, such as the hyperinflation etc.

As evidenced by Vast's Eureka acquisition, it is still possible to acquire assets with considerable infrastructure in place for a relatively low acquisition cost.

Elections in the country have been set for July 2018, and this will be the first major test of the Mnangagwa regime. Our view is that if Mnangagwa retains power in the election through the ZANU-PF party and makes good on pre-election promises, this will ultimately encourage further investment in the mining sector.

Recent developments in Zim suggest the landscape is changing

- The Zimbabwean *Ministry of Mines and Mining Development* has been tasked to identify projects under a Rapid Results Initiative within the first 100 days of the new government. Target projects are those that the Ministry believes will be important in helping to turn around the economy.

- The Zim government has reportedly signed a deal with a South African junior mining company to develop a lithium deposit. The new Zimbabwe government has identified Prospect Resources' Arcadia lithium project as a priority mining development project under the initiative outlined above. Prospect's March PFS for Arcadia indicates an NPV10% of $340m, IRR 77%, with capex of $52.5m, producing total lithium equivalent carbonate production of 27,000tpa.

- Cyprus-based Karo Resources (a vehicle of mining entrepreneur, Loucas Pouroulis) has signed a deal with the government to develop a $4.2bn platinum mine and refinery in the country. Karo Resources reports that the operation will include a coal mine and power station, and potentially employ up to 15,000 people. First production is slated for 2020, with an output of 1.4Moz pa PGMs.

These transactions appear to confirm what Mnangagwa hinted at in his opening address, that Zimbabwe is now open for business.

The Eureka asset

Delta Gold's Eureka gold mine has been on care and maintenance since 2008. The last audited accounts were produced in 2010 and Vast indicates that all figures are subject to further verification. The last written down value of the company's fixed assets was shown as $24.5m.

Location and geology

The Eureka mine is located 5km south east of Guruve, 150km north of the capital Harare, and 300km from the company's Pickstone Peerless mine. Access to the mine is by an all-weather tarred road from Guruve and then a 3.5km dirt road to the mine. Eureka is exploiting a granitoid intrusion into the Chinhoyi-Guruve Greenstone Belt, with gold mineralisation hosted within sheeted quartz veining resulting from shearing of the granitoid.

History

Eureka was developed and constructed with first production in 1999. However, due to the economic situation in Zimbabwe at the time which included hyperinflation, the mine only operated for a short period before being placed on care and maintenance in June 2000. The economic situation in Zimbabwe was also accompanied by high-costs and a low gold price, and mining operations were suspended.

Current processing infrastructure in place

The mine was an open pit operation with ore fed to a processing plant with a 1.8Mtpa capacity, a heap leach operation utilising gravity, CIL processing. The processing plant facility at the operation is still in place with the crushing circuit requiring minor refurbishment to reinstate the installed capacity of 150,000 tonnes per month throughput (1.8Mtpa). Vast reports that the ore was crushed, with the coarse fraction (8mm) representing c.85% of ore feed being sent to the heap leach and a finer -2mm fraction reporting to the gravity and CIL circuit.

The current processing 1.8Mtpa ROM infrastructure is designed to produce approximately 70,000oz of gold per annum. **Vast estimates that the historic investment by Delta was approximately $30m.**

Resources

A NI43-101 resource estimate was compiled in 2012 by TWP Projects (Pty) Ltd, on the back of a drilling and exploration programme undertaken by Delta Gold in 2011. This programme included 9,601m of new diamond drilling, with holes targeted to twin historical holes in addition to new holes drilled to confirm the continuity and depth of mineralisation.

The total resource (Indicated + Inferred) amounts to 22.3Mt at 1.9g/t Au for 1,367,600oz of which 1,081,700oz (or 79%) sits within the Indicated category. This is significant as the majority of the resource ounces sit within this higher confidence category. Vast's share of the total resource on an attributable basis (23.75%) amounts to 324,805oz.

NI-43-101 Resource estimate for Eureka

	2012 Eureka Resource Estimate (above 0.5g/t)			
	Indicated		Inferred	
	Grade (g/t Au)	Ounces	Grade (g/t Au)	Ounces
Gross	1.78	1,081,700	2.55	285,900
Net attributable to Vast	**1.78**	**256,904**	**2.55**	**67,901**

Source: Vast Resources

ED View: A cheap acquisition, scope for value accretion

Based on 95% (corresponding to the 95% acquisition of Delta Gold) of the total resource of 1.30Moz and the upfront cash consideration of $4.485m, this equates to an acquisition cost of a mere $3.45 per ounce on a total resource basis.

Factoring in the extra $1.8m to pay off historical creditors (total acquisition cost $6.2m) of Delta Gold makes little difference and equates to $4.8/oz.

M&A comparison. It is worth noting that on any basis, we view this acquisition as good value. Typically, M&A transactions that we track in the gold sector are executed between $50/oz and $200/oz on an acquisition cost / total resource basis. On this basis, even factoring in a discount for Zimbabwe and an operation on care and maintenance, this appears to offer considerable scope for value accretion.

Cost per ounce of annual production. Assuming a production capability of 70,000oz, this equates to an acquisition cost of $89/oz of annual production. Clearly, this excludes any capital expenditure required to get Eureka back up and running, but it illustrates that this is not an expensive acquisition. Typically, global gold companies trade in the range of $1,000-$4,000/oz per ounce of annual production.

Versus discovery costs. Naturally gold project acquisitions tend to be more expensive than discovery costs on a per ounce basis. Minex Consulting estimates that current global gold discovery costs are running at between $45/oz and $70/oz over the last decade. Recent discoveries in our African database tend to average between $10-$25/oz. e.g. in the Houndé belt in West Africa. On this basis, the Eureka acquisition cost looks of $4.8/oz looks extremely low in comparison.

On-site infrastructure provides a capital expenditure advantage

As mentioned, Eureka has a processing plant and infrastructure on site. As the capital expenditure for this is a sunk cost, it is likely that any potential restart of mining operations could be achieve at a relatively low capital intensity. Vast has not given an indication of potential re-start capex, but it is likely to be relatively low compared to new greenfields development projects elsewhere in Africa, in our view. To put this into perspective it is instructive to look at other African-based development projects.

- Kefi Minerals (AIM: KEFI). Kefi's open pit, CIL, Tulu Kapi gold project in Ethiopia has a planned processing rate of 1.5-1.7Mtpa, head-grade 2.1g/t Au, average annual production of 115koz. The capex for this project is $160m based on the company's May 2017 DFS, and contract mining.

- West African Resources (ASX:WAF). WAF is the developing the Sanbrado open pit, CIL gold project in Burkina Faso. Throughput is planned at 2Mtpa, head-grade of 1.7g/t Au and annual average production of 93koz. The capex for this project is $122m based on the company's 2017 DFS, and contract mining.

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