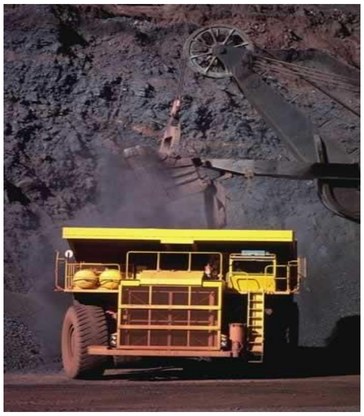

West African Minerals's Djadom projects offer huge potential, says SP Angel

By Ian Lyall June 10 2013, 1:00pm In fact Meyer makes one of the first stabs at assessing the early-stage project economics. He puts total capital expenditure at £1.135bn.

Boutique resources house SP Angel has taken an in-depth look at West **African Minerals** (**LON:WAFM**), the star performer in the sector, and has concluded there is room for significant further growth in its stock market valuation.

Setting a 96 pence-a-share price target, analyst John Meyer, a veteran of the sector, rates the stock a ‘buy’.

His assessment focuses on the potential of the southern licenses at Djadom, in east Cameroon.

It is next door to the 436mln-tonne Mbalam-Nabeba DSO discovery, and the analyst is assuming WAFM is able to compile a resource around half the size of its larger neighbour.

In fact Meyer makes one of the first stabs at assessing the early-stage project economics. He puts total capital expenditure at £1.135bn, including a £745mln contribution to the railroad from Cameroon’s interior to the coast.

His operating costs estimates, meanwhile, are based on the pathfinder work done by Afferro (**LON:AFF**), which has developed the 2.5bn Nkout deposit in the country.

On this basis the SP Angel analyst puts the mining costs at US$11.42 per tonne, or a US$4.58 a tonne for any DSO (direct shipping ore) uncovered.

The most compelling figure is possibly the net present value of the Djadom property, which is put at a shade under US$1bn (US$997mln) based on a 12.5% discount rate. The internal rate of return is estimated to be 29%.

“It is difficult to absolutely value a company with no confirmed resource and no set route for transporting its product to market,” said Meyer.

“However, drilling and trenching confirms the presence of iron ore in substantial structures on a number of licenses and within reasonable distance of proposed rail routes.”

Vice chairman Brad Mills told Proactive Investors in April the group could have a maiden resource compiled for its flagship Cameroon asset by the summer if its US$5mln infill drilling programme goes to plan.

The drilling of Djadom has yielded some interesting and exciting results.

It has uncovered high-grade haematite close to surface and significant banded iron formations down to 100 metres and along a more than 6km strike, that's part of a 25km-long magnetic and gravity anomaly previously outlined.

Geologists currently have no idea of the scale of the Djadom South; however, there are some pointers to its size nearby.

"We are hoping it will be three times Mbarga's scale with 2-300 million tonnes of direct shipping ore," said Mills in a recent interview. "It then depends how things evolve after that."

Mbarga, at just over 200mln tonnes and on the Cameroon side of the Congo iron corridor is one of the two deposits that make up Sundance's property.

Mbalam was to be bought by China's Hanlong as part of a US$1.3bn takeover of the Australian firm. However, that deal is off.

It was to be the prelude to the infrastructural development of this new mining region, including a 500km railroad.

"The Cameroon valuations look cheap and reflect uncertainty over the construction of the heavy duty rail road to the west to connect the new iron ore discoveries to new ports being built at the coast," said SP Angel's Meyer.

"It is our view that these valuations should rise towards that enjoyed by **African Minerals** (**LON:AMI**) and **London Mining** (**LON:LOND**) once financing and construction for the rail links are better confirmed."

Certainly the board has been quick to recognise the potential of the area. And Mills and co-chairman Steve Datells and Jim Mellon have a track record of picking winners.

For Dattels and Mellon their biggest home run was UraMin, which the pair sold to Areva for around US$2.5bn.

"Mills ran **Lonmin** and was formerly president of BHP's base metals business so he is no slouch when it comes to mining," said Meyer.

"They are a team who know how to get things done and can mobilise the finance if the finance is there to be mobilised."