West African Minerals Brings Sanaga To The Fore, And Receives A Share Price Boost As A Result

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Anton Mauve, Managing Director

"We had a bumper field season", says West African's Anton Mauve. "We managed to cover and get to all of the large scale targets that we wanted to get to."

That involved a lot of mapping and a lot of ground geophysics, and culminated in the discovery of two new zones of iron mineralisation in coastal regions of Sierra Leone and Cameroon.

The results, duly announced, pleased the market and boosted the company's shares by over 25 per cent to 7.375p on Aim, albeit that they are still trading at a massive discount to the 92p three-year high hit in July of 2012.

But back then the iron ore price was riding high, and West African Minerals was still mid-way through an ultimately unsuccessful big game hunt in the Cameroonian hinterland.

The company may yet return to stalking those big, but hitherto elusive targets one day. But for the now, says Anton Mauve, the focus is on getting early cashflow from near-term producers. That means direct shipping from coastal projects that allow infrastructure costs to be kept to a minimum.

The two projects flagged up in the recent announcement appear to fit the bill perfectly. Both Sanaga in Cameroon and Madina in Sierra Leone have been inside the West African portfolio for some time, but neither had really received serious attention before this season's work got underway.

"We left Madina pretty much on the backburner", admits Anton. "Although we had a commitment to retain the leases to show that we are doing work." The same is true of Sanaga, which until now has had to yield precedence to the company's bigger projects in Cameroon, Djadom and Binga.

For the time being Djadom has been dropped, and instead Binga and Sanaga will vie with each other for attention and, more to the point funding, as the year progresses. Madina will provide a nice kicker following on behind, as an asset to be developed for a potential sale to Cape Lambert or a Chinese company.

As things stand, Binga will take precedence. But that may not be the case for long.

"We know that we have a ten year life at Binga", says Anton. "Binga is the default, and it's against that philosophy that we raised the funding."

On the other hand, Sanaga has several things going for it. Ongoing drilling at Sanaga will go a long way towards de-risking it to a similar level to that of Binga. Certainly, the results of the recent trenching and mapping programme have been encouraging enough for Anton to plan on taking the decision to the next board meeting without at this stage knowing which way it's likely to go.

"The Sanaga stripping ratio could be lower", he says. That's because the configuration of the mineralisation is more favourable at Sanaga than at Binga. Binga's mineralisation runs through the ground like ribbons, says Anton, whereas the mineralisation at Sanaga is "a big blob".

"It looks like our average grade is going to be a lot higher than Binga", he says. "The operational costs immediately look better." Then there's the matter of timing. Sanaga could be up and running within 12 months, Anton reckons, making use of existing rail capacity, while Binga would take longer, as the infrastructure challenges are greater.

So in six to eight weeks, once the drilling at Sanaga is complete, West African will release the results of metallurgical work. After that the board will meet and decide whether to press the button on a preliminary economic assessment at Binga, with its existing 30.5 million tonne resource at 29.7%, or at Sanaga, where a resource isn't yet in place, but where Anton reckons the total might eventually run as high as 250 million tonnes.

With US$10.5 million in the bank, the company doesn't have enough cash in the bank to fund studies on both projects right now. But if Sanaga can be brought into production within 12 months of getting the green light, as Anton believes, it might not be too long before the cash for a second project becomes available.

That presupposes raising the initial project finance of course – not an easy ask in this market. Ahead of the preliminary assessment it's hard to say exactly what it'll cost to get an operation at Sanaga up and running, but Anton pitches it at less than US$100 million for a one-to-two million tonne per year operation – far less than the billion dollar price tags that some projects come with.

That's a price the market might well be willing to bear, especially if iron ore turns to the good again. Whether it will or not remains to be seen, but Anton is relatively optimistic.

"This is actually a good time to be developing a quality resource", he says. "We think the long-term price you should model on is US$120 per tonne of 62.5%".

If that prognosis is right, the recent uptick in West African's share price may turn out to have been an early pointer to a broader recovery.