JUNIOR MINERS

# Signs of Life

## Market cap of Canada-listed juniors up 100% year-on-year – PwC

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Junior mining companies make up more than 50% of the total market capitalisation on the TSX Venture Exchange, up from 36% on June 30, 2015, a new report by professional services firm PwC has found. As evidenced in PwC Canada's 2016 Junior Mine report, titled 'Signs of Life', cash flows from financing activities increased significantly and cash flows from debt and equity financing increased to 45% and 48% respectively over the 12-month period between June 2015 and June 2016.

"While the outlook is positive, it's too early to call it a recovery. For the past few years, executives have had to look at different and creative ways to allocate resources and capital.

"As investors renewed their interest in junior assets, we're now seeing market valuations close to what they were in 2012, which is encouraging," PwC Canada national mining leader **Liam Fitzgerald** stated.

According to the report, top junior mining companies on the TSX-V have seen a rise in market capitalisation of more than 100%, compared with last year. There are about 1 000 mining issuers on the TSX-V, with the top 100 accounting for about two-thirds of the sector's market value.

The market capitalisation of these top 100 surged 138% to C$11.4-billion at the end of June, up from just C$4.8-billion a year earlier.

Meanwhile, political and economic uncertainty around the globe provided some relief to junior mining companies by inflating the price of gold by as much as 22% by midyear. Gold is a key asset for each of the top five juniors, with the exception of the top company, NexGen Energy, which focuses on uranium exploration.

Importantly, two members of the group progressed beyond the TSX-V in July this year, with NexGen graduating to the TSX and Kaminak Gold being acquired by Goldcorp for C$520-million, PwC stated.

According to PwC, the breakdown of where the top companies sit in the mining life cycle remained mostly unchanged from the prior year, with most companies at the exploration and evaluation stage, followed by development- and production-stage entities. But PwC pointed out that the different market valuation gains for each category were noteworthy.

According to the report, the 63 exploration companies led the way, rising by 154% as a group, suggesting that investors saw the biggest opportunity in greenfield projects. The 25 issuers focused on the development stage enjoyed a 124% gain and the 12 production companies rose 67%. PwC also warns mining companies that there is no room for complacency.

"The mining sector is moving in the right direction but executives must continue to remain cautious. By managing risk in this volatile market, they can focus on new project pipelines and investigate new opportunities for mining in locations like Nova Scotia," adds Fitzgerald.

The report highlights important areas to watch for, noting that it seems markets are rewarding companies run by experienced mining executives who have demonstrated creative leadership and an agile approach to capital allocation, putting these organisations in a strong position to ride any recovery.

While investors are clearly more enthusiastic about gold's future these days, a key question is capital allocation. Many made significant cuts to survive the downturn and the long-term effects of that belt tightening remain unclear, PwC warns. The market is now watching to see when and how these companies will begin to spend money again.

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The breakdown of the mine's coal supply arrangements are as follows: 17% is supplied to the local pea market and 3.6% is sold to the local small nuts market. Another 11% comprises washed duff, which is sold to the export market through the privately owned Richards Bay Coal Terminal, in KwaZulu-Natal, in terms of the Quattro programme. The programme facilitates the access of junior black economic-empowerment coal producers to the coal export market. The remaining 68% of the mine's coal is sold to Eskom.

"This project has significant potential, as it provides us with access to the export market, which will be fully realised when export prices improve," Hoffmann enthused.

Mbuyelo has acquired a mining right, a water-use licence (WUL) and environmental authorisation for the Welstand colliery, which is located in the town of Kriel, in Mpumalanga. However, Hoffmann said the company planned to amend the WUL, as the original licence did not provide for a wash plant and Mbuyelo had decided that it wanted to wash the coal at the mine.

The colliery has an estimated resource of 19.2-million run-of-mine tons of coal and Hoffmann expects the mine to be brought into production over the next two years. "Welstand will comprise underground (70% of output) and opencast (30% of output) operations," he said.

Mbuyelo Group also operates the Rirhandzu colliery, in the Victor Khanye local municipality, in Mpumalanga. This operation does not fall under the umbrella of Mbuyelo Coal and is managed by the group directly. The mine is an openpit operation with an estimated LoM of eight years and produces 1.2-million tons of coal a year, which it sells to Eskom.

To watch a video in which Mbuyelo Coal COO Hentie Hoffmann discusses the company's operations and future ambitions, scan the barcode with your phone's QR reader, or go to Video Reports on www.miningweekly.com.

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