Gold Fields' Ghana mines get a lifeline

Gold Fields triggered a $1,4bn investment at its Damang mine in Ghana to extend the life of the operation and bring it closer to its production target of 1m ounces a year in West Africa.

The decision came after an agreement with the Ghanaian government in March to lower corporate tax and royalty payments, a development that would have saved Gold Fields 33m at its two mines in the country in 2015.

The agreement was critical to the R19,5bn investment in the country. Gold Fields has a market capitalisation of R47,5bn, about 2,5 times that of this single investment. "The agreement was key, because without it, it would have been tough to recapitalise the mine," Alfred Baku, the head of Gold Fields' West Africa region, said.

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In its third-quarter production update, Gold Fields, which mines most of its gold in Australia, said it had decided to reinvest in Damang to extend its life by eight years to 2024 and extract 1.56million ounces of gold at an all-in cost of $950/oz. The project breaks even at 1,050/oz.

The project would be funded from Damang and Tarkwa in Ghana and there should not be any recourse to Gold Fields, said CEO Nick Holland. "From 2019, it [Damang] will put a lot of cash on the table," he said.

Analysts said the investment would secure Gold Fields' production until 2023. Gold Fields stuck to its forecast of up to

2,15m ounces for 2016.

"We think this has been the best decision management can make, given their options at current prices, although we do think Damang will remain a marginal operation and small relative to the group," said Adrian Hammond of SBG Securities. The mine constituted 3% of the company's net value.

"The inclusion of Damang's new plan will mean that group production could be sustained at current levels until 2023. This includes a conservative view on South Deep," he said.

Damang and Tarkwa would together generate about 800,000oz of gold a year and a third mine would have to be added to reach the 1m ounce target, Baku said.

There has long been speculation that Gold Fields and AngloGold Ashanti could come to an agreement on AngloGold's Iduapriem mine close to Tarkwa. Holland has said it would made sense to bring them together.

"We don't comment on speculation regarding any asset. What we can say as a general matter is that Iduapriem is a solid, wellrun mine that generates cash and has a range of promising project options that will generate additional value for us over time," AngloGold spokesman Stewart Bailey said on Monday.

Holland declined to name targets for a third mine, but said the "aspirational" target of 1m ounces could be met through the purchase of a mine in the region rather than specifically in Ghana.

AngloGold's relations with the government are strained because of its handling of illegal miners at Obuasi. Baku said the possibility of a similar invasion of Damang was one of the reasons Gold Fields decided not to suspend the mine.

In Ghana, Gold Fields is turning to privately generated power to end Tarkwa and Damang's reliance on an erratic supply from the state. Baku said the mines should be completely off the grid in 2018 as they bought cheaper power from a privately operated gas-powered generator. Tarkwa and Damang will save 30% and 10%, respectively.

Gold Fields could expand production if the gold price rose above a sustained $1,400 an ounce, tapping into a further 2,6m ounces, Holland said.

Source: I-Net Bridge