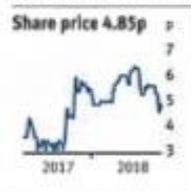


AIM: MINING

## Shanta Gold is lean and hedged

**S**hanta Gold (SHG) remains in a precarious position. Despite encouraging signs at the end of 2017, the Tanzanian government failed to return any VAT owed to the miner in the first half of 2018. Those receivables have now climbed to \$17.9m (£14.1m) and contributed to a \$9.5m increase in working capital in the period. And while net debt declined, draw-



down of the final \$1.9m tranche from Exim Bank was needed just to prop up cash flows.

A higher average selling price provided some respite, although investors will have noted a 9 per cent drop in the gold price since the start of June. Fortunately for Shanta, some 37,000 ounces – equivalent to at least three-quarters of second-half production – has been forward-sold at \$1,264 an ounce. That's a 7 per cent premium to the yellow metal's current spot price.

Full-year earnings should also receive a bump from ongoing self-help measures. All-in sustaining costs averaged \$757 an ounce in the first half, but Shanta continues to guide for \$680-730 an ounce on an annualised basis. With one eye on near-term development opportunities, output from the Ilunga underground mine has been fast-tracked to "mid-2019 instead of late 2020".

On average, analysts expect full-year adjusted pre-tax profit of \$17.8m and EPS of 2¢, rising to \$19.7m and 2.3¢ in 2019.

• **The VAT issue, and what broker Numis terms the "ongoing uncertainty surrounding the ownership structure for New Luika", are concerns, but should be viewed against last November's \$3.4m VAT payment. Wide margins and falling capital commitments should also help de-leveraging efforts, and boost shareholders' pitifully-valued equity. AN**

**Buy**

Ord Price: 4.85p Market Value: £37.8m  
 Touch: 4.7-5p 12-Month High: 7p Low: 2.63p  
 Dividend Yield: nil PE Ratio: 3  
 Net Asset Value: 13.3¢\* Net Debt: 37%  
 \*Includes intangible assets of \$23.3m, or 3¢ a share £1-\$1.27

Half-year to 30 Jun	Turnover (\$m)	Pre-tax profit (\$m)	Earnings per share (¢)	Dividend per share (¢)
2017	52.7	-0.65	-0.36	nil
2018	50.2	8.45	0.92	nil
% change	-5	-	-	-

Last IC view: Buy, 6p, 31 May 2018