



The Best Place to Search for the Next Big Gold Discovery

Description

For gold prospectors, this is one of the last untapped frontiers in the world.

West Africa has become a very popular gold-mining jurisdiction in recent years. The region is vastly underexplored. Many nations have enacted mining-friendly policies only in the past decade and had received almost no investment before that.

And their bet is paying off. **Randgold Resources** (NASDAQ: GOLD), one of the top producers in the region, is on track to nearly double its production over the next four years and has been one of the best performing large-cap stocks in the mining space. Other big names like **Newmont Mining** ([NYSE: NEM](#)) and **AngloGold Ashanti** ([NYSE: AU](#)) are also betting big on the continent and this could be only the beginning.

One such company that has had success in the region is **Endeavour Mining** ([TSX: EDV](#)). I had the opportunity to discuss the challenges and opportunities of mining in West Africa with the company's Chief Financial Officer Christian Milau.

Robert Baillieul: Thank you Christian for taking the time to speak with The Motley Fool community today. For our readers who may not be familiar with your firm, could you just give a high level overview of your company's story?

Christian Milau: Endeavour is a company that was founded in the late 1980s in Vancouver, Canada. [Chief Executive Officer] Mr. Woodyer really built it up as a financing advisory business over a 20-year period .

However, since about 2009 the company has actually been investing in the gold mining industry. Over the last three to four years Endeavour has acquired three firms — Etruscan, Adamus, and Avion. In total we have four mines focused on West Africa operating in four countries — Ghana, Burkina Faso, Ivory Coast, and Mali. Today, we're producing over 400,000 ounces from a standing start in 2009.

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We were attracted to West Africa because there was little consolidation going on in the gold space. Yet the region is a very prospective territory in terms

of the geology and really underexplored.

There are a few majors like Newmont and AngloGold that have a number of large mines there. There are a lot of exploration companies and development companies. However, there's not a lot of mid-tier, mid-size companies that have scale, geographical, political diversification that can weather some storms and continue to grow and consolidate when it makes sense.

We just finished building the Agbaou mine in the Ivory Coast. It was officially completed late last year and went into commercial production early this year. That's our fourth mine, and the first mine built in that country in quite a few years. I'm quite proud of that and our people worked very well with the local governments. Gold production in the Ivory Coast has gone up almost 25% based on this new mine that we built.

We now feel that we have the ability to put together some of the companies we have acquired. We're looking towards the future.

The next project is Hounde. This mine is essentially double the size of any of our current operating mines and over \$300 million in capital. Hopefully we will have the mining permit for later this year. Construction is pending on the state of the gold market and financing situation at that time, but the team is ready to go on that by the end of this year.

Today, we are just working on optimizing and integrating our mining operations. We're focusing on our internal house and looking forward to the future.

RB: I think I speak on behalf of lot of people when I say that the perception of doing business in Africa is challenging. The first thoughts that go through my head are terms like "civil war" and "asset nationalization". What are the challenges your company faces on the ground and how do you mitigate those risks?

CM: I think people watch the headline news a little too often and it's not necessarily the reality on the ground.

There is certainly some political risk there. Endeavour invested in Mali just after there had been a change in the government regime there. We took the view that the best time to invest sometimes is in companies or situations where there is an upside opportunity.

Certainly these countries have gone through some difficult times. But on the ground, our mines tend to be either in more remote regions or areas really unaffected by a lot of the major political issues and situations.

In some of these countries, particularly Mali, gold mining is one of the largest industries and a vital source of revenue for the government. A lot of our mines, on a rough basis, would be contributing 50% of profits effectively to the government through various forms of levies, duties, royalties, and taxes, etc. We're a big contributor to the economy in the country. Governments there aren't keen to see any interruptions in production and performance and we really haven't had any problems.

[Christian Milau pullquote screenshot - text edited](#)

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Even when there was a problem in Mali there we are so far

away. People forget how big Mali is. The troubles are in the far north. We're basically double the distance going from the north to the south of France away from the actual trouble. We're about as far as we can get away from that near the Senegal border so we really haven't had any problems or supply interruptions.

The one other thing that we have experienced is good relationships with the governments. I can speak specifically about the Ivory Coast. Over the last few years I was down there negotiating the mining convention with the government that stabilized our taxes and gave us favourable rates.

We had access to go to the mine ministers, chiefs of staff, the prime minister, and the president of the whole country. They really wanted to see the foreign investment and the jobs added. They see this as the potential for the development of local communities as well as wider industries and the whole country. We found them to be very supportive, and haven't really experienced many of the problems that you might expect.

Of course, there are isolated instances here and there. I'm Canadian and there is certainly that in Vancouver as well. It's just not as highly reported in the country.

In the Ivory Coast, a lot of senior level government officials are ex-World Bank or ex-IMF. They're trained in all different parts of the world or have gone to universities in countries like the U.S., Canada, U.K., France. They have brought a lot of international investment experience. We felt they were very professional dealing with them and that gave us the comfort.

In fact we started investing in the Ivory Coast and building the mine before we got the mining permit and our convention signed. However, we have very good relations with the government. There's a good trust relationship built there I'd say over that two-year period constructing the mine. I'd say it's been a good experience.

I've been pleasantly surprised. I came from a mining company, **New Gold**, which originally operated in North America, South America, and Australia. Just getting things done has been quite refreshing in Africa because you're dealing with decision makers quite often. They're very professional. They want to see the development and growth.

As for more of the minute details about some of the challenges on the ground, logistics and infrastructure sometimes can be a challenge. If our mines are in remote locations, it's difficult getting equipment to sites. However, there are well-trodden paths. There are a number of mines in the area so a lot of people have moved equipment around.

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The skilled labour can be in short supply in some of these

countries. Ghana has a long history of mining and we only have three expats working in the mine there. All the rest are Ghanaians, very skilled. I would say Ivory Coast has a shorter history of gold mining so it's sort of senior skilled labour is coming along very well and developing. We're investing in a training fund in the Ivory Coast to send people to universities to study mining and engineering.

Taxes can be a challenge, but that's not exclusive to West Africa. I know Quebec has been increasing its royalties. Mexico just increased their royalties. Ghana increased their tax rates.

Taxes are actually a global issue where government are looking for other sources of funding. I found that up until the end of 2011, the gold mining industry was quite profitable up until the last few years. They have been increasing taxes, royalties, and rates on the gold mining companies which has made it difficult recently.

RB: That's what I wanted to transition into next. How has the drop in gold prices impacted your company's strategy?

CM: In late 2011, we were at the top of the gold market near US\$1,900. Certainly since 2012 it came down heavily. It certainly impacts your operating cash flows. It makes you take another look at your projects. You look at your spending. You reassess what's necessary and what's not. We've seen that across the industry.

Everyone is looking to cut costs with suppliers to find more efficient ways of purchasing consumables, spare parts and supplies. Suppliers have been really supportive. They share the pain with us in a sense and have actually helped us reduce costs.

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One of the brighter sides of the downturn is that it does make you look at controlling costs and refocus on cash flow. That's important. Some people have accused the gold mining industry of forgetting about capital allocation when prices were really high there in the 2010 and 2011 period. We've had some real focus and try to keep our costs under control with the current environment.

The industry has done well for when the market does turn. The commodity markets always turn, it's just a matter of when. They go up and they go down. Hopefully we're near the end of the down period but the future is always unpredictable.

RB: Are there any more opportunities to cut costs within your operations?

CM: There's always something you can do. You adjust to the market because we just don't have control of the pricing of our product. It's a commodity so you must try to adjust to whatever the price is.

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We've made a big effort to cut costs but we were doing that

anyways. Part of our strategy was to buy mines and companies that were challenged. Either they were over-leveraged, their cost structure wasn't right, there was too much debt, or something like that. We were trying to bring them in, make them more cost efficient, and capitalize them as necessarily.

We redoubled our efforts to deal with financial issues. In the short term [that meant] suspending activities that we thought could maybe be postponed for a while. A few capex [capital expenditure] items. Certainly, [we looked at] ongoing costs and whether they're necessary.

If you look in our public documentation we have cut some of the workforce as well, unfortunately. In certain cases anywhere from 10% to 30% of the workforce in some of these countries we've had to cut. Setting up on more sustainable structure in our view is that the best defence against low gold prices.

I know some gold mining companies have looked at hedging.... It's certainly another way to look at it, but it's not our strategy.

RB: There appears to be a gap in the project pipeline between the recent completion of the Agbaou mine and the earliest possible time the Hounde project could come into production. Is there a possibility of another acquisition in the not-too-distant future?

CM: We're more internally focused on optimizing our current assets and looking at Hounde and preparing for that and making decisions. Whether we need to do more drilling to add some ounces to the reserves and resources in order to make it a bigger and much more interesting project to increase return.

We more focus on current things at the moment. We're not blind to the external market. Certainly our track record is a little bit opportunistic. If an opportunity comes along, it would have to be really compelling. We'd be opportunistic but we're not looking for acquisitions at the moment.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:NEM (Newmont Mining Corporation)
2. TSX:EDV (Endeavour Mining Corporation)

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