Semafo Inc. Finds Mining Success in Africa

Description

While bigger miners such as **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) and **Goldcorp Inc.** (TSX:G)(NYSE:GG) seem to get all the attention, one smaller, more nimble gold miner in West Africa has bucked the industry trend of declining share prices. Both Barrick and Goldcorp have seen their stocks decline by over 50% over the past three years.

Semafo Inc. (TSX:SMF), meanwhile, with its $1.1 billion market cap, has actually risen by 35% over the same time period.

What's its secret?

Low costs

With the multi-year price collapse of gold (which is down 30% in three years), profit margins have been squeezed at most major miners. In 2015 both Goldcorp and Barrick had all-in sustaining costs of production around $950 an ounce, leaving fairly little room for further price declines. **IAMGOLD Corp.** actually has production costs nearing $1,200 an ounce, implying a loss this year if things don't improve.

It's not often pointed out, but Semafo's cost profile is lower than nearly every other miner in the world; its 2016 guidance is just $720-760 an ounce. Not only does this have to do with its high-quality ore base, but management has been very successful at limiting corporate costs.

In 2012 general and administrative costs totaled roughly $22 million. Since then these overhead costs were reduced every year and ended 2015 at just $14 million, a total decrease of 37%. For 2016 management anticipates a further reduction.

Significant financial flexibility

Most miners tacked on a significant amount of debt during the last boom cycle, spending billions on new projects in anticipation of continued high prices. With gold down to just $1,150 an ounce, many operators are stuck with legacy debt loads, all while fighting collapsing earnings and losses.

With such a narrow expansion focus, Semafo was able to avoid these troubles that have plagued the rest of the industry. It ended last year with debt levels that were equal to just 15% of equity. Barrick, by example, has debt that's equal to roughly 100% of its equity. Clearly, Semafo has plenty of margin to withstand lower commodity prices.

Additionally, Semafo has a strong cash position of $167 million, heavily outweighing its total debt of just $90 million. If it wanted, it could pay off its entire debt load tomorrow. The competition isn't so lucky.

A leader amid turmoil

Semafo looks like the gold miner everyone had hoped to build. It has a portfolio of high-quality, low-cost assets, all while maintaining a clean balance sheet with the financial flexibility to withstand the inevitable swings in commodities markets. Management has proven its ability to control costs, boost production, and avoid overspending.

If you're looking for gold exposure but get queasy looking at the wild stock fluctuations of most miners, Semafo may be a viable alternative.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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2. TSX:ABX (Barrick Mining)

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