DRDGold strikes while the SA iron is hot

The combination of DRDGold (SJ:DRD) and Sibanye-Stillwater's (SJ:SGL) West Rand Tailings Retreatment project (WRTRP) looks like providing the sort of re-rating the South Africa-focused company has been chasing. Yet, it admits it would probably not have such options if the country was the foreign investment hotbed it previously was.

Jacqueline Holman

The WRTRP assets' Driefontein 4 tailings dam

The assets in the greater Carletonville/Randfontein area of South Africa could be exchanged for 38% of DRD's share capital, if its shareholders approve the transaction later this month.

As part of the deal, the company will acquire selected surface processing plants and tailings assets, while Sibanye-Stillwater will have the option to boost its DRD holdings to 50.1% and add a director to its board.

DRD received approval from the South African Competition Authorities on February 7 and only requires approval from shareholders, who are due to vote on the transaction on March 28.

DRDGold CEO Niel Pretorius told *Mining Journal* that, although Sibanye-Stillwater had not been actively looking to sell the WRTRP asset, the two companies had come up with what he thought was a mutually-beneficial model.

"We've always known we wanted to get involved in this asset, but we were always nervous about the massive capital required to get it going ... we are allowed by the manner in which the transaction is structured to approach this in a phased approach, which was never previously contemplated for the development," he said.

One of the reasons DRD had managed to acquire the assets was because South Africa was currently not "the most attractive investment destination", he said.

"If it was easy to raise money in South Africa, if it was an easy operating environment, there's absolutely no reason why a company like Sibanye-Stillwater wouldn't have developed this relatively small (for Sibanye) asset," he said.

"But I think it's become tougher and companies, especially multinationals, have other priorities.

"For them (Sibanye-Stillwater), I think it's strategically more attractive to have premium upside and we're in the business of mining tailings — we have systems aimed at dealing with the risks particular to our model ... we can assume that project execution risk provided that we can do it in a manner that is within our capacity."

Planned development includes a five-year life of mine (LOM) phase one starting at the beginning of 2019 with a throughout of 500,000 tonnes per month, working cost of R63.97 (US$5.45) per tonne, net present value (NPV) of R1.3 billion and capital expenditure of R288 million.

Then, there are two second phase options.

The first, which is DRD's preferred route as it offers the potential for further regional consolidation down the line, would require a two-year construction period and a project that could yield a 20-year LOM at 1.2 million tpm throughput. This came with working costs of R48.49/t, a R2.1 billion NPV and R3 billion capex.

An alternative is an extension of the first phase that includes a 13-year LOM, 500,000tpm throughput, R63.97/t working costs, R2.7 billion NPV and R397 million capex.

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Pretorius said DRD was selling the deal to shareholders by focusing on the flexible execution options, with the asset adding value from the off, rather than having to raise billions of rand to fund construction.

The shareholder value can be seen in the company's rand per share projections. The first phase is expected to raise the company's NPV per share to R4.17, or R4.03/share if Sibanye-Stillwater exercises its share options, up from the current R3.75/share.

Together, the company's preferred phase one and two route could result in a NPV of R5.37/share (R5/share if the Sibanye option is exercised). The alternative phase two option would see the NPV rise to R6.19/share (R5.66/share with option exercised).

"Based on these numbers, the transaction is value accretive — it's better than selling the business or holding onto it in its current state. Hopefully these aspects are appreciated by the market and we get the support in order to do it," Pretorius said.

He added that it would also increase DRD's gold reserves 91% to 5.7 million ounces, as well as increase the company's average mine grade from the current 0.3g/t.

In the first half of 2019, phase one is expected to add 31,817oz of gold production to the group's output at a cash operating cost of R77 per tonne. This compares with the 82,576oz at R87/t expected in the first half of 2018 from current operations.

Phased approach

DRD will start the first phase while also carrying out the design, planning and test work to find the optimal combination for the rest of the WRTRP assets.

In this phase, it will operate in a closed circuit, which will include reclamation of the Driefontein 5 mine dump, processing through the Driefontein 2 and 3 plants and deposition through the Driefontein 4 tailings dam, with water being used from the Driefontein 10 shaft.

Pretorius said the Driefontein plants were an important acquisition, as it meant DRD did not have to build major infrastructure, only upgrade the capacity from 300,000tpm to 500,000tpm.

"It's a very nice tight footprint and not a lot of initial capex," he said.

The existing Driefontein plants will be upgraded

DRD published pro-forma accounts to show how the assets could add value and, assuming a gold price of R15,996 per ounce (about US$1,356/oz), it forecast revenue of R1 billion and profit of R229 million for the year ending December 31, 2019.

"Even at R510,000/kg (R14,458/oz), it still remains an attractive model … it was important for us to address concerns that the market might have with regard to project execution risk and earnings dilution risk ... we're showing numbers coming out in the very first year," Pretorius said.

During the first phase, DRD will also carry out a two-year definitive feasibility study for the second phase, after which it will make a decision on whether to continue.

The preferred phase two, if it goes ahead, would include the reclamation of the 400,000tpm Driefontein 3, 200,000tpm Kloof 1 and 600,000tpm Libanon 1 dumps, through a constructed central processing plant and 1.2 billion tonne tailings deposition facility, also in a closed circuit.

R1.2 billion of the associated capex is currently required for the tailings dam alone, which Pretorius said was high and would be revisited.

"We're going to have to see some movement in the gold price before that one really becomes a go, as the NPV is lower than the capex," he said.

After 12 years of production, the second part of the preferred phase two would be enacted. This would entail five years of reclamation of material from the Venterspost North and South dumps.

If the preferred phase two doesn't go ahead, the alternative back-up plan would include reclaiming the Driefontein 3 dump's 50Mt of tailings material through the Driefontein plants once the Driefontein 5 dump is depleted, as well as increasing the size of the Driefontein 4 tailings dam.

"This is a very tempting alternative ... simply because of the economics. It is a very low capex model, but you'll see that the values are really impressive," Pretorius said.

He added that the alternative option was worth more than its preferred phase two option, but did not provide the same regional consolidation options that came with the large tailings facility.

"If you do the alternative option, when it finishes, it's done and you probably won't then have the higher-grade material to co-fund your capital infrastructure for that regional consolidation," he said.