Prime Base for growth

Heavy mineral sands miner Base Resources (ASX/AIM: BSE) is entering a new stage of growth marked by significant cash flow, diminishing debt, low-cost project expansion, improving prices in the flourishing sector and the prospect of merger and acquisition activity.

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Kwale is just the Start for Base

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The company is embarking on its Kwale Phase 2 mine optimisation plan, which will save US$60 million in fixed costs and maintain the production rate at its project in Kenya to late 2022.

Thanks to improving prices of up to 200%, Kwale's revenue to cash cost ratio was 2.2 and in the top quartile in the March quarter and is moving higher still, and the company is now looking at annual cash generation in excess of A$100 million at current run rate.

Base is ready to capitalise on its growth opportunities, through local and regional exploration to extend mine life at Kwale and through near-term project acquisition.

At the same time, the company is quietly continuing its core community programmes, as it works in step with its best-practice principles to create a local economic stimulus that will outlast the mine.

Managing director Tim Carstens and the Base team set out to build a meaningful resource company from the bottom up, using the 100%-owned Kwale project as a starting point.

"We want to be the first thought-of company when people talk about truly successful resource development in Africa – and we're getting there as far as having our model recognised," Carstens said.

"And we are now absolutely ready to capitalise on growth opportunities."

The company has made rapid progress since acquiring Kwale in 2010, achieving start-up on schedule and making its first shipment in 2014 followed by its first debt repayment the following year.

With its remaining net debt of around US$100 million being a little over the equivalent of a year's cashflow, Carstens is confident the company could be debt-free around the end of 2018.

Phase 2 will maintain production levels to 2022

Kwale was Kenya's first large scale mining project and the largest private investment at the time with a start-up cost of US$350 million and the operation still represents about three-quarters of the country's mining industry.

Carstens said the company's philosophy of engagement, community development and collaboration was a key to its success.

The company is keeping a close eye on the upcoming August elections but Carstens said he was not expecting any major upheaval.

"At end of the day, Kenya always acts economically rationally in our experience," he said.

"We've had some perception issues but Kenya has a clear idea of where it wants to go, it has a new mining act and is working hard to attract investment in the country.

"We elevated community and government engagement to being core business for us which has delivered results and we're now being approached by other companies wanting to see how we do what we do."

Carstens noted another key driver for the company's success was its strong and settled board and management team.

"We've got a highly capable team – and we haven't had anyone leave from the management team. Everyone's excited and motivated by what we do," he said.

“We’ve now got a track record of successful development backed up by a really effective operational ramp-up.”

The company is now aiming to complete the Kwale Phase 2 project construction in the June quarter of 2018 and will fund the modest additional US$13.1 million capital cost from operating cashflows.

KP2, as it’s known, brings forward revenue by processing the current reserve faster, shortening the mine life on those reserves by 2 years from 2024 to 2022, and stripping out two years of fixed costs totalling around US$60 million.

“In short, with the implementation of KP2, we will be producing the same volumes, earlier and with over US$60 million less in costs,” Carstens explains.

“This has heightened our focus on exploration success to extend mine life and has increased our leverage to that success.

“Any even modest extension of mine life is going to be meaningful in the context of the way we’ve got the operation running now.

“We expect to update the resource in the September quarter, incorporating the results of the recent drilling program.”

The recent drilling has focused on the South Dune extension area, which is expected to have a similar mineralogy and assemblage to the South Dune resource and also be well-suited to the cost-effective hydraulic mining method *(pictured)*.

Hydraulic mining has proved a stellar success for Kwale

The company now intends to turn its exploration attention to the North East zone, adjacent to the higher-grade Central Dune, early in the new year.

Beyond that, Base has assured longer-term, region-scale potential for its project, picking up exploration licences just across the border in Tanzania within 100km, or easy trucking distance, of its existing operations.

The KP2 optimisation and expected resource update have perfectly coincided with improving prices and price outlooks for Kwale’s ilmenite, rutile and zircon.

Base locked further price increases into its contracted ilmenite sales for April, representing a 200% increase on the prices a year ago.

Carstens expects ilmenite prices to steady after the significant surge and the focus is now on rutile and zircon prices, which are starting to move and currently represent about 60% of Base’s revenue.

There were increasing signs of supply tightness in both the high-grade rutile and zircon sectors and Carstens said prices for both were expected to strengthen in the second half of this year.

Rutile and ilmenite are primarily feedstock for the production of titanium dioxide pigment, used in products ranging from paint to cosmetics, while zircon is predominantly used in ceramics.

“The applications are ubiquitous in everyday life and demand is closely tied to global GDP,” Carstens said.

He said given the small number of listed mineral sands miners, one of the challenges facing the sector was the lack of visibility and understanding.

“Investors and brokers don’t get too many touch points on what’s going on in the sector, so there’s little visibility on how things are improving and the equity markets are definitely a little behind where the mineral sands sector is right now,” he said.

“Our challenge is to drive the recognition of the cash generation of our business and the rapid reduction in debt which should be seeing enterprise value rolling to the equity.”

But Carstens is already looking beyond price improvements and KP2 and is excited about the company taking the next step in its development, with strong support from its major shareholders.

The company has assessed some 40 undeveloped mineral sands assets around the world and Carstens would like to see an opportunity secured in the next 12 months to add to the company's portfolio.

"We've got a good understanding of what will work and in what price environment," he said.

"We want to put our foot on the right development asset, get it development ready for when market conditions call the project forward. We think we're in pretty good shape to execute on our strategic plan."

He said Base was explicitly structured to pursue its strategic plan, including the value enhancing projects at Kwale whilst pursuing the appropriate M&A opportunities effectively.

"I'm really excited about what comes next for Base," he said.

Base Resources – at a glance

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MARKET CAP: (at 14 June 2017) – A$222.7 million

QUOTED SHARES ON ISSUE: 742.2 million

MAJOR SHAREHOLDERS: Pacific Road Capital (24.6%); Sustainable Capital (15.1%); Taurus Funds Management (9.8%); Regal Funds Management (7.9%); Aterra Capital (7.5%)