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NEWS BUSINESS



EXPERT COMMENT
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Base Titanium is a buy

Base Titanium released its quarterly activities report – December 2016 last week in Nairobi. Base Resources' share price closed at a 26 month high of 25 Australia dollar cents and has rallied an extraordinary +640.09% over a 12 month period. The highest price was clocked in March 2013 (when the commodity markets were in full swing) at 53cents. Base Titanium mines mineral sands at Kwale. Mineral sands produce the following

"Finely ground titanium dioxide is used as white pigment in paints, plastics, paper, and even edibles – constituting the single greatest use of titanium worldwide. Zircon's primary use is in the production of ceramic tiles, but also in more exotic applications such as foundry casings, nuclear fuel rods, or water purification systems to name just a few. The main uses for rutile are the manufacture of refractory ceramic, as a pigment, and for the production of titanium metal" (Seeking Alpha).

Mineral sands are an esoteric corner of the commodities markets and transactions are typically bilateral.

I was introduced to Tim Carstens, the CEO of Base Resources by the then Australian High Commissioner Geoff Tooth and have watched Tim up close and personal and can say at this time, Mr Carstens has proven he has the wherewithal to navigate through multiple complex (and even asymmetric) environments simultaneously. During this period, Base Resources has had to navigate a boom and a bust in the commodities markets, a nascent mining environment here in Kenya (and I have to give credit to Tim and the CS Dan Kazungu who both never lost sight of the national interest) and simultaneously keep the whole show financed at an international level.

Rutile is responsible for 50% of revenue but only 15% of volume and therefore bulk. Rutile sales have a significant impact on revenues. Ilmenite prices rallied an eye-popping +40% in Q4 2016 and prices for Base Resources' ilmenite have increased by over 100% between May and December 2016. Base ramped up production with Ore mined (tonnes) clocking 3,049,333 in December 2016 versus 2,101,295 in December 2015. Average revenue per tonne clocked \$250 per tonne (versus \$200 last quarter). Base is surfing the price rebound and extracting more value by optimising production. Interestingly, Kenya exported \$16million of Titanium to the US ten months through 2016 just a little behind Tea (\$18m for the same dates). That is called a diversification of our exports basket right there. The rising tide of production and prices helped base reduce its net debt by \$18.1million to \$129.5million.

This remarkable performance will lead to higher royalty payments for the government of Kenya but its important to look at base not through a royalty prism alone. Base reminds me of a moon landing, its planted the mining flag in the Kenyan soil. Kenya did not have a mining sector before Base Titanium. And in the future, Base's modus operandi will be a calling card for its expansion across the continent. They are looking at a property just south of Tanga in Tanzania. Given how aggressive President Magafuli can be, I would be surprised if he has not pounced on Tim, yet. Base has an outstanding safety record; Kwale operations' lost time injury frequency rate ("LTIFR") remains at zero. Base Resources' employees and contractors have now worked 8.2 million man-hours LTI free, with the last LTI recorded in the March quarter of 2014. It is Base which is seeking to revitalise the cotton value chain as its contribution towards creating a sustainable economy after the mine's life has expired. At every step, Base has been ahead of the curve, I am certain that the ROI for the local community is off the charts.

Base Resources is listed in Australia and I expect the share price to scale all time highs over the next 18 months.

Base is living proof that the Kenya mining sector is now open for business and we should always remember the pioneers who opened it up.

Aly-Khan is a financial analyst