Deal or no deal

An anticipated bid for Kasbah Resources triggered a share price collapse but also ushered in a way forward for the company's much delayed Achmmach tin project.

John Robertson* | 17 Aug 2016 | 21:17 | Opinion

Kasbah Resources have been frustrated by a lack of funding options for the Achmmach tin project

Kasbah typifies the recent experiences of many small mining companies. Having skilfully created an advanced project opportunity, weak global growth, a 95% fall in its share price and a stiflingly high cost of capital have conspired to prevent development.

Kasbah had been abnormally well positioned strategically. Its Achmmach tin project in Morocco was one of the few examples of a greenfield tin mine slated for development anywhere.

Related content

- AMR rocks Kasbah register
- Kasbah optimism was foolhardy
- Is the gloom lifting from Aussie mining?
- The South Crofty tin comeback?
- China, Indonesia control 2016 pricing

The site is favourably located close to Europe in a country with a benign commercial regime.

The company had attracted an array of partners any one of which would have been welcomed as important strategic support by other companies. Thaisarco, Toyota Tsusho, Traxys, Nittetsu Mining and the International Finance Corporation had poured money into the company or directly into the project in a sign traders and smelters recognised the need for new tin sources.

TOPICS (select for more information):

Achmmach Tin Morocco

Asian Mineral Resources

Kasbah Resources

Kasbah had initiated the Achmmach project too early in the cycle to have adopted the more abstemious use of capital becoming commonplace in the industry nowadays. It was only in early 2016 that it trimmed back its pre-production capital spend from US$181 million to US$42 million and, in a definitive feasibility study released in July, US$62 million.

Despite the big cut in spending leading to a more modest 11-year tin production target of 40,369 tonnes, down from 51,200t, the project economics are not especially compelling although they are highly leveraged to any future rise in tin prices.

Based on its latest feasibility analysis, potential investors in Kasbah were being offered a chance to pay US$71 million (US$54 million) in equity and project spend to get back US$150-155 million over 13 years. This would be equivalent to buying a bond with an 8.5-9% yield, well above currently depressed government borrowing rates but not enough to comprehensively cover the sort of risk posed by a development at this stage.

"Apparently, for them, transferring Achmmach to a management team offering superior development credentials and stronger capital market connections is needed to get the job done"

Kasbah had voluntarily ceased trading on July 19 after its share price had more than tripled over the prior fortnight. The unusually large volume of shares which accompanied the higher prices seemed an especially prescient buy after confirmation from the company of an impending corporate transaction.

Disappointingly for those mid-July buyers, Asian Mineral Resources (AMR) used a combination of shares and warrants to pitch its bid 40% below the last traded price.

There will be some disgruntled investors fuming about the skinny return on the recent price but AMR will have been foolish to offer materially more given the project economics and the absence of a competing bidder.

Kasbah has little prospect of ever clawing back an acceptable return on its A$63 million historical investment in pursuing the Achmmach development.

Without a cash offer, the question confronting Kasbah shareholders is whether they will be better off holding the current 75% interest in Achmmach through Kasbah Resources or through AMR.

In either case, the tin project will be the sole and principal asset, for all practical purposes, since AMR is on the verge of placing its Ban Phuc nickel project in Vietnam on care and maintenance as it directs its energies into building a new tin mining platform.

With 52.2% of the shares of the newly combined entity, Kasbah shareholders will retain a diluted interest in the same future cash flows to which they were already entitled.

Consequently, the 8.5-9% bond-equivalent return for a Kasbah shareholder would drop to slightly below 6%, while AMR will have saved in the vicinity of A$40 million.

Kasbah shareholders will have to decide whether a potential loss of value on paper will be offset by a greater real life chance of the project potential being realised under the stewardship of AMR.

Kasbah shareholders will have to decide whether a potential loss of value on paper will be offset by a greater real life chance of the project potential being realised under the stewardship of AMR.

Kasbah directors have danced around this point. The Kasbah chairman used the nebulous benefit of geographic and commodity diversification from coupling Vietnamese nickel with Moroccan tin to justify the transaction.

The chairman's PR-inspired claim that "the transaction provides immediate value creation" sounded exceedingly hollow against the backdrop of the market's reaction.

Kasbah management had frequently cited the presence of industry heavyweights and expressions of interest from the finance arm of the World Bank to highlight the company's advantages in accessing capital. Despite the promise and frequently foreshadowed negotiations, the ultimate funding deal remained elusive.

Speaking from his home base in Vietnam, AMR's chief executive was sensibly coy about detailing future financing arrangements but was, nonetheless, clear on one point. AMR initiated the bid believing funding could be arranged.

Kasbah chief Wayne Bramwell is of the view that the combined entity is likely to be viewed more positively by debt providers.

An independent expert will opine on the transaction. Hopefully, the expert will take into account the capital raising impact of the deal since a purely valuation-based assessment of the type normally produced may appear a flimsy and unconvincing rationale for change.

Despite the limitations of the value argument, three of the largest Kasbah Resources shareholders, accounting for 27% of the company's shares, have committed their support for the transaction.

Apparently, for them, transferring Achmmach to a management team offering superior development credentials and stronger capital market connections is needed to get the job done.

Short of an unexpected competing bid from an investor with a more bullish view of tin prices, the transaction looks set to proceed.

Kasbah shareholders now face another delay as the scheme of arrangement is approved and AMR directors add their insights to the development plan.

In all likelihood, longstanding shareholders will never fully recoup their capital losses but may yet salvage a stake in the creation of a global tin miner built around the Achmmach core through which they can take advantage of any future cyclical improvement in tin market conditions.

**John Robertson is the chief investment strategist for PortfolioDirect, an Australia-based equity research and resource stock rating group. He has worked as a policy economist, business strategist and investment professional for nearly 30 years, after starting his career as a federal treasury economist in Canberra, Australia*