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Fertile ground

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LOW profile Azumah Resources expects drilling over the next few months will get it to the tipping point of being able to develop a gold mining operation in north-west Ghana. And in the process, enable the all important market re-rating to gain traction.

The company has to date delineated 754,000 ounces at its various gold prospects comprising the Wa project - Wa being the largest local town with a population of 30,000 - and preliminary mining studies completed last week indicated a viable development was in the offing.

But it needs more ounces.

The mining studies indicated 292,000oz would be recoverable from a one million tonne per annum operation treating 4.5 million tonnes grading 2.24gpt (for a contained 323,000oz), and producing gold at cash costs of $US483/oz, about half the current gold price. Identification of a further 250,000oz would take the overall resources inventory to 1Moz, representing one of the rather arbitrary numbers investors and interested onlookers like to see.

Out of that 250,000oz, Azumah managing director Steve Stone roughly estimates 50-60% would potentially convert into mineable ounces, and in doing so, add one-to-two years mine life on the 4.5 years. That's the sort of mine life that Stone wants to see, and, he believes, potential financiers too. (In relation to the latter, the ubiquitous Macquarie holds 15.1% of the company).

The Azumah philosophy according to Stone is to get a modest gold mine into operation quickly, while the gold price and market is strong, with expansion capacity designed into the initial operation. The mining studies carried out to date by Azumah and its consultants haven't yet advanced to calculating a capital cost, but judging by other developments in Ghana, something in the order of $US65 million could do the trick.

While somewhat isolated in terms of the Ghanaian gold industry, Stone says there don't appear any major hurdles for development in terms of location, politics, infrastructure and the like.

And so those additional ounces are the key focus.

"We're very confident we'll get those ounces which is why we started doing these pit designs and starting off the scoping study because you wouldn't do them if you didn't think you'd get the ounces," Stone says. "It's a very fertile area."

Regarding a re-rating, Stone points to the enterprise value per resource ounce metric, which, while suffering the flaws that bring to mind apples and oranges, is the best/simplest/quickest reference point for comparing explorers.

According to Stone, the $A17 per resource ounce that Azumah was notionally being valued at this month is half the benchmark for gold projects on the market, and "very cheap" in comparison with other gold explorers in the general region.

Azumah had more than $A6 million cash at the start of the current quarter, and was capitalised this week at $A16 million - at a share price of 10.5c. A recent $A5.25 million raising was priced at 9c, and while the shares have hardly being flying in recent times, Stone indicated sellers of the stock aren't finding it difficult to find buyers.

And if Azumah gets on the road heading toward production toward the end of 2011 by finding additional ounces in the next few months, then buyer interest shouldn't dissipate. Indeed, quite the contrary.