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Jubilee Sells Off Non-Core Assets To Provide Cash To Support Its Merger With Platinum Australia

If timing is everything in mining, then surely it makes sense to accompany a £20 million paper merger of companies in a metal 30 per cent off its peak price of five years ago with measures to bring in cash now to provide support for the deal.

That is the reasoning behind Jubilee Platinum's latest spate of transactions ahead of its imminent merger with Platinum Australia (PLA), masterminded by entrepreneurial veteran chairman Colin Bird and chief executive Leon Coetzer.

The merger is currently waiting on South African court approval for its scheme of arrangement, due on 10th June.

The latest moves involve cutting the company's stake in its non-platinum, ferroalloy smelting operations at Middelburg in South Africa's Bushveld Complex, in exchange for US\$14 million from Global Renewable Energy, an Isle of Man-registered, US-owned wind-farm backer.

The company retains the right to use Middelburg's 15 megawatt arc furnace for processing platinum-bearing material, a concentrator to process 800,000 tonnes of stockpiled tailings from past operations, and 30 per cent of the power plant

In fact, says Coetzer, it all fits in with Jubilee's long-term strategy, while allowing the company to hold off on re-opening PLA's flagship Bushveld mine, Smokey Hills, otherwise known as Phoka Thaba, until, as he puts it, "clarity returns to the platinum price".

That price currently sits at US\$1,458 an ounce, down from US\$2,252 five years ago.

Coetzer's also holding out for a time when "peace returns to the industry", after wildcat strikes and fatal shootings of strikers have become grim features of recent months in South Africa's mining sector.

Coetzer says re-starting Smokey Hills will cost an estimated R190 million (£12.6 million), with the hope of extracting some 70,000 ounces of platinum group metals annually from the second half of this year.

These days, raising that sort of money might have proved tricky. But now, thanks to the deal with Global and others, "there is no need to re-start the mine"

"We have had offers of more concentrate from elsewhere to process", declares Coetzer, who argues doing just that would make more sense and ultimately allow for the re-start of Smokey Hills "for a fraction" of the £12.6 million now talked about, when prices are better.

That is no insignificant sum for a company such as Jubilee, which lost £8.6 million in the year to June 2012 and which sports an AIM value of £24.7 million with its shares down from nearly 130p in 2007 to 7.13p now.

Indeed, Coetzer waxes lyrical at the processing potential Jubilee could exploit before reverting to developing mines. "Non-mining earnings could be roughly £3.5 million a year", he suggests.

Either way, the treasury is in for a considerable boost. Jubilee has £1.5 million cash now, before the £9.6 million from Global Energy and £5.5 million expected from other sales.

Looking further ahead, when Smokey Hills does eventually come into operation, it "could be among the cheapest operating mines in the world", enthuses Coetzer.

It's not the only string to Jubilee's bow though

There's also the 63 per cent-owned flagship project at Tjate, at the eastern end of the Bushveld, which holds an estimated 65 million ounces of platinum group metals and gold, and other projects

such as Kalahari, an open-pit prospect in the 6.5 million to 11 million ounce range, where the company has conducted a definitive feasibility study and will decide whether to develop it alone or seek to bring in a partner.

A similar decision faces Jubilee over Rooderand, PLA's four million ounce platinum group metals open-cast project in the western Bushveld. "There is a drill report awaiting a decision", says Coetzer. "Do we sell or invest?"

Insistent that Jubilee's moves have all been positive and strategic and not, as some sceptics suggest, a matter of making a virtue out of necessity, Coetzer adds Jubilee may cast its eyes elsewhere in the sector.

"There will be a number of opportunities in platinum", he argues. "Consolidation is inevitable."

But he will be discerning too. "We will not invest in deep, futuristic mines and cash costs must be below US\$900 an ounce.' If the sector rebounds, then so should Jubilee Platinum.