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Crusader Swims Against The Tide As Investors Spot An Emerging Gold Development Situation

By Our Man in Oz

Every mining company manager reckons the stock market undervalues his business. None have greater cause to grumble than the team running Crusader Resources – though perhaps for not much longer as the final touches are applied to a bankable feasibility study into its game-changing Borborema gold project in Brazil, preparations are made for financing negotiations, and plans are made for a start on construction by mid next year.



The Crusader Team

A hint of the changed circumstances which lie ahead for Crusader can be seen in its price on its home Australian stock exchange where the stock moved higher last month even as the gold price fell. As gold slipped during October from US\$1787 an ounce to \$US1719/oz (down 3.8 per cent) Crusader shares rose from A51.5 cents to A54 cents (up 4.8 per cent).

The movement in dollars and cents might seem insignificant, but the trend is not with Crusader's rise against an outgoing gold-price tide a clear indication that professional investors and investment banks are building positions ahead of next year's events which will see the company start developing a mine designed to produce around 150,000 ounces of gold at an attractive US\$580/oz over an initial nine-year life.

Hurdles remain to be cleared, but Crusader executive director Paul Stephen, painted an optimistic picture when speaking a few weeks ago at the Resources Rising Stars conference on the Gold Coast in Australia. "We've got two major projects moving towards development," Paul said. "Our starter project is the Posse iron ore mine, followed by Borborema. Both projects are well located, and both will spin off significant cash flows."

The business plan is to use the cash from Posse to help fund Borborema with the mine producing around one million tonnes of iron ore a year which will be sold into the domestic Brazilian market. Paul said the estimated capital cost required at Posse was just US\$2 million. For that tiny outlay Crusader will get a mine producing iron ore at a cost of less than A\$10 a tonne, selling it for between A\$50/t and A\$80/t.

Winning all the required government approvals is taking longer than expected but when received Posse should be an easy project to bring on line with a beneficiation plant already installed on site and with the mine located close to the major city of Belo Horizonte complete with all necessary infrastructure requirements such as water, power and roads at the mine gate.

Posse, however, is small beer compared to Borborema, a mine which has historically yielded around 150,000 ounces of gold for early garimpeiros (prospectors) and another 100,000 ounces as a heap leach project in the 1980s.

What Crusader brings to the party is a combination of modern exploration and processing technologies, and a clear focus on developing a substantial mine where there were once small diggings and intermittent heap leaching at a time of ultra-low gold prices.

News flow from Borborema will accelerate over the next few months, starting with the completion of the bankable feasibility study, the calculation of a maiden reserve, and the finalisation of arrangements with government agencies for the conversion of current "alteration" licence into a mining licence.

As the paperwork is sorted, Crusader will be able to move ahead with construction planning for a mine based on a current (but likely to expand) resource of 2.43 million ounces of gold in 68.6 million tonnes of ore (in all categories) with the average grade running at 1.1 grams a tonne.

Potentially of greater importance than the starting numbers for Borborema is the exploration potential at depth and along strike. The depth potential has become clearer as Crusader has progressively tested the mineralised shear zone which plunges at about 45 degrees.

The most recent assays show thick (43 metres) intersections at grades ranging from 1.13g/t to 1.57g/t outside the pre-feasibility pit shell, but now being worked into an expanded pit. If the grades and thickness are maintained it is possible that Crusader could look at an underground development, but that step is well into the future.

What the ongoing drilling shows is that Crusader could have a tiger by the tail at Borborema which is why it has expanded its tenement package from an original 29 square kilometres to a much bigger footprint of 4100 square kilometres – in a proterozoic belt that has never been subjected to modern exploration methods, and within which four immediate targets have been identified.

Investment banks are warming to the Crusader story, as can be seen in the earlier “against the flow” share price trend. The Canadian firm, Clarus, recently included Crusader on a list of four emerging gold producers due for a share-price re-rating as they de-risk their projects and make the transition from explorer to producer.

“Borborema is on a fast track to production”, Clarus told clients, noting that the project would generate an internal rate of return of 24.3 per cent and achieve payback of its capital cost in 2.5 years, assuming Crusader sticks to a model based on processing three million tonnes of ore a year, though Clarus expects a four-million tonne-a-year model to be included with the feasibility study.

Petra Capital, an Australian brokerage, has been a fan of Crusader since sending analysts to the Posse and Borborema on a site inspection visit in late August. After that trip, and while Crusader was trading at A44 cents, Petra rated the stock a buy and put a surprisingly high net present value on the stock of A\$2.76.

What Petra likes is the cash flow potential of Borborema with the broker telling clients that in the 2015 financial year (the first full production period) Crusader will be generating revenue of A\$281.9 million, and posting a pre-tax and other charges profit of A\$167.8 million, which will equate to A71.1 cents a share.

In some ways the Petra numbers sound too good to be true, but what’s interesting is that even if you apply a 50 per cent discount factor to allow for excess broker enthusiasm you are still left with a compelling financial story of an emerging producer with its foot on a starter project, and a vast playground for future discoveries.