Shanta Gold Limited

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Bristow clears the log-jam in Tanzania, but major questions still remain

Shares in Shanta Gold Ltd (LON:SHG), a company that is producing gold from the New Luika mine, 700 kilometres south-west of the Tanzanian capital Dar-Es-Salaam, have been on the up lately.

Over the past two years the price has doubled from just over 3.5p back in September of 2017, to around 8.10p today.

That's not bad going in a sector which is widely recognised to be in a long-standing downturn, and where capital has become notoriously hard to come by.

But Shanta has had two things going for it.

The first is that the gold price, especially in 2019, has performed well. While there are many market participants who doubt the long-term viability of the metal's recent run, the simple fact is that the price has risen from just under US$1,300 in the autumn of 2017 to the current price of well over US$1,500.

Any company that's producing gold, as Shanta is, has therefore reaped the benefits of a US$200 boost to margins, as sunk costs for mines remain the same whatever fluctuations occur to the selling price.

Perhaps more significant for the Shanta share price even than the market's view of gold, though, have been perceptions about political risk in Tanzania.

Tanzania elected a new President, John Magufuli, back in 2015, amid a wave of optimism that his anti-graft platform would clean up the political scene and generate something of a renaissance.

The results have been decidedly mixed, to say the least. While the subsequent crackdown on corruption has yielded some notable scalps, it's also lead to a significant decline in foreign direct investment - down from 5% of GDP in 2014 to 2% in 2017, according to the World Bank - and more specifically to a direct attack on Tanzania's mining industry.

Tanzania came to industrial mining relatively late in the day compared to African peers like Ghana, South Africa and Zambia, which have been major producers since the turn of the 19th and 20th centuries. By contrast, Tanzania was really only opened to mining up by smaller entrepreneurial enterprises like SAMAX and Cluff in the late 1980s.

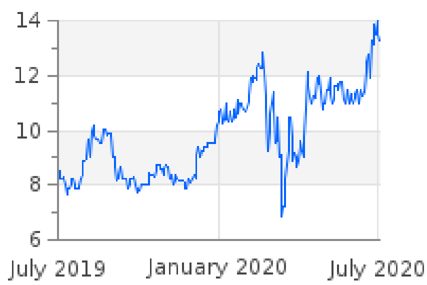
As a consequence it missed the chaos of the continental trend to sequestration than ran rampant in the 1970s and early 1980s, and which countries like Zambia really only began fully to recover from in the early 2000s.

So when the Magafuli administration began to put the squeeze on mining soon after coming to power, it's conceivable that it didn't appreciate how much economic damage would be caused. But there was a flip side to that too - which was that most observers inside the mining industry, never mind the Tanzanian government, thought that the principal target of his attentions, Acacia Mining, had it coming.

Price: 13.74

Market Cap: £107.58 m

1 Year Share Price Graph



Share Information

Code:		SHG
Listing:		AIM
52 week	**High**	**Low**
	18.875	**6**
Sector:		**Gold & silver**
Website:		**www.shantagold.com**

Company Synopsis:
Shanta Gold is an East Africa-focused gold producer, developer and explorer. The Company is focused on its flagship asset, the New Luika Gold Mine (New Luika), located in southwest Tanzania.

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For some years, Acacia in Tanzania had represented if not quite what's worst in the mining industry, the something that came odiously close. There were riots at its mines in the northern part of the country. People were killed. The mines became fortresses against the imprecations of the local community. Tailings dams leaked. And all the while the company's management sat tight in offices hundreds of miles away to the south in Dar-Es-Salaam wondering why their reputation was going down the tubes.

Into this situation stepped Magafuli, sensing a major vote-winning opportunity. The method he wielded was to become a favourite against lesser adversaries as his administration went on - allegations of tax and general financial impropriety.

The money owing, allegedly, by Acacia, amounted to US$300mln. Acacia dug its heels in, relations with the government collapsed, and Acacia's permission to export was withdrawn.

It was in this wider nation context that shares in Shanta Gold, which had quietly been minding its own business in the development of New Luika, plumbed new depths. And Shanta wasn't the only one.

Shares in Armadale Capital PLC (LON:ACP), which owns a graphite project in the centre of the country, dropped by 75%. Shares in Edenville Energy (LON:EDL), which is now producing coal from the Rukwa mine in south-west Tanzania, slid. Acacia's own shares collapsed and, what was more, Tanzania's reputation as a safe home for foreign direct investment, went with it.

Shanta quietly stuck to its knitting and powered through, waiting for the sun to shine through some chink in the storm clouds.

It came when Mark Bristow, the man who built Africa's most successful gold miner in recent years, Randgold, was appointed to run Barrick Gold (NYSE:GOLD)(TSE:ABX).

Bristow knew how to fix the situation, and the answer involved the elimination of Acacia as an independent entity, the payment of the fine and a new profit sharing agreement with the Tanzanian government.

This took a bit of doing of course, and the small matter of a US$1.2bn recommended bid for Acacia, but the deal has now been done and investors can now contemplate the possibility that doing business in Tanzania will once again become a straightforward affair.

Or can they?

At the beginning of September the Financial Times published an exposé on the increasing number of disappearances and detentions without trial that have become a hallmark of the Presidency of Mr Magufuli, who's otherwise known as "the Bulldozer".

The FT highlighted the case of journalist Erick Kabendera, seized and detained without trial, and another journalist Azory Gwanda, who disappeared in 2017. Both were critics of Mr Magafuli's government.

Equally worrying is the trend that the Magafuli administration has developed of using tax and financing irregularities as a way of detaining suspects without trial. Three Acacia Mining executives are still being held a year after formal charges were first levied at the company, and although Mr Magafuli has recently hinted at their possible release, their ultimate fate remains uncertain.

The President has also suggested that others detained on charges of financial irregularities should simply settle up the alleged unpaid taxes if they want to walk free, which looks suspiciously like state-sanctioned extortion.

So the picture remains mixed.

Bristow, the Africa Mr-Fixit, has cleared the major logjam, and the hope has to be that the investment climate will improve from here on in. Edenville Energy has just raised £300,000 to increase production at Rukwa, and there are still plenty of junior miners operating in-country. Shares in Shanta are on an upward trend, and could well continue to strengthen.

But Mr Magafuli is now on notice. Investors will be twitchy at any hint of further crackdowns, and it may be some time before that foreign direct investment number starts to tick up again.

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