

Ormonde Mining plc

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Construction at Ormonde Mining's Barruecopardo project is continuing on time and on budget

Shares in Ormonde Mining plc (LON:ORM) are trading at more than double the price they were at a year ago. The reason is simple: a growing appreciation for the company's key asset, a 30% stake in the Barruecopardo tungsten project in Spain.

Ormonde and 70% partners Oaktree Capital have been pushing ahead with construction at Barruecopardo following a strengthening in tungsten prices last year.

READ: Ormonde Mining says Barruecopardo project commissioning scheduled to commence third quarter 2018

Operations are directed by the mine subsidiary's board, comprised of representatives of Ormonde and Oaktree Capital, with day to day operations being managed by Ormonde's former managing director Steve Nicol, who relinquished his board position in the summer of 2017 to dedicate his 100% focus on project delivery.

The rationality of this doesn't take much digging into. One way or another Ormonde has been on the ground in Spain for nearly two decades, and Steve Nicol himself has lived there for many years.

What's more, the man who was hired to boost the Ormonde management after Nicol's sideways move, Fraser Gardiner, used to run Ormonde's exploration operations in Spain before he was tempted away to join Citadel in Saudi Arabia.

Back in Europe now, Gardiner is picking up where he left off at Ormonde, or at least up to a point. Construction work Barruecopardo will be left in the capable hands of Nicol.

But the corporate level-work is now the province of Gardiner and chief financial officer Paul Carroll, while Nicol's managerial positions and the old exploration portfolio that Gardiner was so familiar with revert to his control.

Still, Barruecopardo is likely to grab all the limelight for the foreseeable future, given that commissioning is planned for the third quarter of this year. With production costs slated at just US\$119 per metric tonne unit, against the current European price of over US\$350, that limelight is likely to be well deserved as margins will be exceptional.

READ: Ormonde Mining makes good progress with Barruecopardo construction as tungsten prices climb

The costs of getting Barruecopardo into production aren't extortionate either, with a Capex of just over €50 mln. So all told, this looks like being an asset that should well reward its investors, albeit that Oaktree now holds the majority.

Price: 3.65p

Market Cap: £17.25M

1 Year Share Price Graph



Share Information

Code: ORM

Listing: AIM

52 week	High	Low
	6.26p	3.10p

Sector: Mining

Website: ormondemining.com

Company Synopsis:

Ormonde Mining plc is a mineral resource company currently developing a world-class tungsten mining project and holding other mineral interests in Spain. Ormonde's primary activity is through its 30% interest in the Barruecopardo Tungsten Project, which is currently in the advanced stages of mine construction.

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There's still work to be done before those rewards start coming in, though.

"We are proceeding full steam ahead," says Carroll. "The construction of the plant is on schedule."

Gardiner concurs. "We'll be commissioning before the end of the third quarter, with production expected around the end of the year."

And what will happen after that?

Of course, Oaktree will play a key role in deciding, but Ormonde's position has recently been neatly outlined in research conducted by the Irish broker Davy.

Ormonde as an investment, argues Davy, seriously dials up with an extra US\$100 on the tungsten price. And that extra US\$100 is not far off doubling the value of Ormonde either.

Davy starts by discounting project cash flows at a baseline price of US\$250 per metric tonne unit to the start of 2018, leading it to estimate that Ormonde is worth US\$32.5 mln or 5.3p per share.

But then it gets interesting. Using a price of US\$300 per mtu, which is still significantly below current trades, Davy calculates the net present value at 8.7p per share, more than double the price Ormonde has been trading at recently.

In turn this leads to the comparison that at US\$250 per mtu the average gross annual cash flow over the life of the mine is US\$21.7 mln, rising to US\$34 mln at US\$300 per mtu. This indicates that Ormonde is trading on an EV/EBITDA multiple of five times at a price of US\$250 per mtu and 3.2 times at US\$300 per mtu.

And remember, it's a small market.

"Outside of China we're a decent-sized player," says Carroll - once up and running, Barruecopardo will be well and truly on the tungsten industry map. With funds, such as those managed by Oaktree, generally having an average investment horizon of 5-7 years, it seems likely Oaktree will seek an exit at some point.

Precisely how Ormonde will be involved in any such deal will be settled down the line. But along the way, Ormonde should have received significant dividend payouts from Barruecopardo, as well as its agreed annual management fee.

There's also the likelihood that the production parameters originally outlined for Barruecopardo will have been surpassed, as new resources and reserves are brought in and the production rate increases as the project starts working extra days.

It all goes towards providing a solid floor to the Ormonde share price, and a solid foundation for Gardiner to work off, if it comes to cutting any deals on the other assets.

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