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Caledonia Mining Corporation PLC

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Caledonia Mining shares hit a five year high, but with a 40% boost to production due next year there could be more to come

In the space of the last week or so, shares in Caledonia Mining Corporation PLC (LON:CMCL)(NYSEAmerican:CMCL) have jumped from 660p to the current price of 800p, a rise of more than 20%.

But this is no ordinary junior mining company bouncing off the bottom in thin trading and hostile markets. On the contrary, this is an established producer and dividend payer, that has been operating successfully at its Blanket mine in southern Zimbabwe for several years. What's more, the recent jump isn't just a one-off - rather, it's part of a long-standing trend that has seen the shares climb from a relatively lowly 454p 12 months ago and the even lower 192p level that they were trading at five years ago.

Indeed, the latest jump has taken Caledonia to a five year high, and sets it up nicely for the next stage in its development.

Because there is a strong case to be made that this is only just the start.

"Our long-standing expansion is nearly finished," says Mark Learmonth, the company's finance director.

"In January 2015 we started construction at the new central shaft, and since that time we've been digging this 4,000 foot hole in the ground in Zimbabwe that's four times deeper than the Shard is tall."

It's a huge and complex undertaking for a relatively small company like Caledonia to be undertaking. Nevertheless, the whole process has been virtually glitch-free, thanks in large part to the technical expertise of chief operating officer Dana Roets.

"We finished digging the hole in July of 2019," continues Learmonth and we are now busy filling it up with steel to make it a functioning shaft."

The entire undertaking will be finished by January 2021, at which point Caledonia's capital expenditure numbers will come down dramatically and free cash flow will increase exponentially.

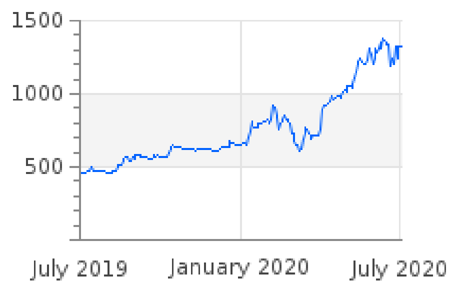
That's because the shaft will allow the company to boost production from the current 55,000 ounces a year to around 80,000 ounces going forward, a boost of around 40%. Operating costs, meanwhile, are expected to fall from the mid US$800s per ounce to the low US$700s, while fixed costs will be spread more widely.

What kind of re-rating will be generated as a consequence remains open to question, but given that the recent upward move was stimulated simply by a publicly stated improvement in the earnings outlook on the current 55,000 production level, one suspects that there may be plenty more interest in the market as earnings and margins go up next year, and costs come down.

Price: 1291

Market Cap: £148.73 m

1 Year Share Price Graph



Share Information

Code:		CMCL
Listing:		AIM
52 week	**High**	**Low**
	1389	**351**
Sector:		**Gold & silver**
Website:		**www.caledoniamining.com**

Company Synopsis:
Caledonia Mining is a profitable cash generative gold producer with a strong growth profile, Caledonia's primary asset is the Blanket Mine in Zimbabwe which produced 54,512 ounces of gold in 2018 at an All in Sustaining Cost of $802/oz.

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All of which begs the obvious question: what will the company do with the extra cash it will be generating?

"We've been paying a dividend since 2012 and we absolutely understand the importance of paying a dividend given the environment in which we're operating," says Learmonth.

"But if we paid out every single dollar we earned we'd become ex-growth, and that might not sit well with investors since we're mining a depleting asset. So we want the flexibility to increase the dividend at a faster or a slower rate depending on what else we're doing."

Over the years Caledonia has developed a deep well of in-country expertise in Zimbabwe, and it's also attracted some high calibre mining industry professionals onto its board, including John McGloin, the former head of Amara Mining and Nick Clarke, the man behind the almost unparalleled success of Central Asia Metals (LON:CAML). Learmonth himself has been on board for many a year, while chief executive Steve Curtis has extensive experience of the business environment in Southern Africa.

All of which experience can be deployed into the search for new growth opportunities.

"We can comfortably increase the dividend and invest in early stage new projects," says Learmonth.

"The new projects will be in Zimbabwe, which remains a very underexplored gold jurisdiction. But we won't be looking at buying any big existing gold operation. Most of those assets require significant recapitalisation. Our approach is to get our hands on brownfields projects explored historically by the likes of Anglo American (LON:AAL) or Falconbridge, and then over the course of two years identify a resource base. It will take at least two million ounces will get us excited, although some of the stuff we're looking at is potentially bigger."

It'll be relatively slow work, and won't provide explosive growth. But then, Caledonia has time. The mine life at Blanket goes out to 2034 and there may even be significant resource left after that. Meanwhile, the outlook for gold remains distinctly positive.

The price has already touched US$1,580, and with the ongoing uncertainties around US politics, the coronavirus, the Middle East and a host of other imponderables, gold is likely to remain much in demand as the safe haven asset of choice.

So Caledonia is set up nicely. Growth in the near-term is assured, longer-term growth is underwritten, and investors are already beginning to show their appreciation. It's a pattern that seems likely to be repeated in the future.

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