New Dawn Mining a gold play in Zimbabwe

By Mike Kachanovsky


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New Dawn Mining Corp. (ND-TSX, $0.57) is an emerging gold producer with operations in southern Africa. The company controls two mine projects, one in Zimbabwe and the other in South Africa.

There has been a lot of reporting from these countries in recent years and most of the news is unflattering to say the least. That may be enough to prompt investors to be overly cautious when considering mining projects from the region. However the story for New Dawn is actually very encouraging.

With so much mining activity worldwide in countries that are in the midst of geopolitical challenges, investors should be aware of country risk when reviewing any prospect. Often one may encounter attractive companies that are fundamentally sound and yet trade at steep discounts to their peers. The exercise comes down to the equivalent of buying prime rib and paying for hamburger.

Gold is gaining more attention in recent months as an asset of safety during uncertain economic times. As investors become more interested in gold leverage, mining companies that can produce in the lower cost band relative to the peer group will likely become more attractive in the market. New Dawn certainly fits that description.

The Turk and Angelus mines in Zimbabwe were recently producing, with cash costs in the range of $380 per ounce of gold. In South Africa, the Blue Dot mine was also in the lower quartile of producers with average costs in the range of $500 per ounce.

The gold spot market pricing is notoriously volatile, but at least, investors can remain confident in the economic viability of these projects with such strong operating margins. And if the price of gold launches higher in the months ahead, the lower cost producing mining companies could see their earnings gallop to impressive numbers.

Mining activity has been ongoing at Turk for more than 80 years through various political regimes. The mine is a conventional operation, fully permitted, extracting relatively high-grade gold ore from typical greenstone host rock. All processing infrastructure is located on site. Access is good, water resources are readily available, and hydroelectric power lines extend right through the property area.

There are no outstanding environmental issues associated with the mines. Extensive resources remain to be exploited and there is also strong exploration potential for additional discovery. In short, if this mine was located in Canada, it would be considered an ideal operation.

Foreign currency OK

Zimbabwe has its share of socio-economic issues and the domestic economy is in rough shape. One might expect this to have an impact on the mining activity and that is indeed the case. Many senior skilled mining personnel have left the country. Power interruptions occur frequently in southern Africa and this puts restrictions on the efficiency of the operations. Inflation is a well-publicized problem in the country and this has direct effects on the operating costs at the mines. Nonetheless, the Reserve Bank of Zimbabwe recently announced significant changes to its monetary policy, allowing gold producers to receive foreign currency for their gold sales. This measure was very supportive to keep mines running and thereby maintain employment plus access to hard capital from gold sales. In addition, the country has now permitted domestic transactions to be settled with foreign currency, which will help to simmer down the inflation issues.

New Dawn has been active in Zimbabwe for more than 12 years. Most of the other players in the mining sector have abandoned their operations and left the country. Zimbabwe was once a significant producer for gold, and there is tremendous untapped potential at many shut-in mines. As things rebound, backed by a solid balance sheet and a stable beachhead with the operations at Turk, New Dawn effectively becomes a natural consolidator for some of other mines in the country.

In South Africa, New Dawn controls 74 percent ownership of the Blue Dot mine project. This too was recently in production with two developed underground mines in close proximity, again operating under nearly ideal circumstances. Access to reliable hydroelectric power is also an issue at Blue Dot, with occasional interruptions that effect mining operations. New Dawn has opted for a conservative mining strategy with modest production targets for 2009, while exploration and development work will continue at the mines by the internally generated cash flow from operations.

Reliable data suggests that upwards of one million ounces of gold resources can be documented at the two mine projects controlled by New Dawn. One of the first priorities will be to build upon these resources through exploration work to discover other deposit areas. Nonetheless it is significant that more than 10 years of production can be sustained from the existing resources even if not one new ounce of gold is found.

The company is less than a year old since it completed its IPO in 2008 and therefore is very attractive on the basis of a tight share structure, with only about 30 million shares outstanding. The balance sheet is clean, with no long-term debt outstanding, and about US$4.7 million in working capital on hand. And as mentioned above, the operating margins are robust. New Dawn is capable of generating some impressive cash flow numbers even under minimal production levels.

The objectives for the short term are to resume production at both projects. Management expects to achieve an annualized production rate of about 20,000 ounces of gold by the end of 2009. The company has the ability to increase production with minor plant modifications and as additional staff can be recruited and trained the plan is to scale up operations to generate incremental growth of 4,000 to 8,000 ounces per year. There is always the potential for an acquisition of a new mining asset and management has reviewed several promising targets.

Shares of New Dawn currently trade in the 50-cent range. This represents an exceptionally cheap entry level for investors relative to the operating strength of the company, the cash in the treasury, and the leverage to gold resources at the mines.

While one should never overlook geopolitical risks, the market discount relative to its assets would suggest that the potential upside for this company justifies a speculative position for risk-tolerant investors.

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