


TDV News Update: B2Gold

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Back in 2009, **B2Gold (BTG:US, BTO, TSX, MCap C$4.0 bln**) acquired Central Sun Mining for $74.8 million. The key assets acquired in the transaction were the producing El Limon mine and the advanced exploration stage La Libertad mine, both located in Nicaragua. The former Bema group, cashed up from the sale of their company to Kinross, spotted them as solid assets that they could immediately put into production, and which earned them sufficient cashflow to expand. This is one of the world's premier mining groups. Very few gold producers can say that their share price today is anywhere near what it was at the peak of the last gold bull.

Since then, B2Gold Corp has grown its annual production from about 100,000 ounces of gold in 2010 to nearly 1 million ounces in 2019. The two mines in Nicaragua have produced in excess of 1.4 million ounces of gold since 2010 and are expected to produce 150-160,000 ounces in 2019. But yesterday, B2 announced their sale to **Calibre Mining (CXB.V, MCap C$26 million)** for total consideration of $100 million.

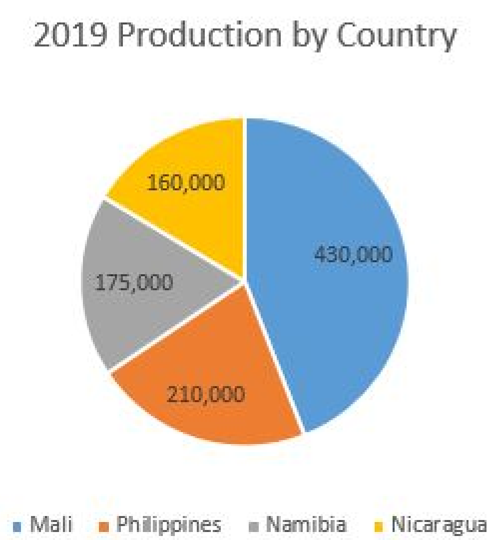
Transaction highlights:

- $40 million in cash
- $40 million in shares of Calibre Mining priced at C$0.60
- $10 million in 2021 convertible debentures convertible into Calibre Mining shares at C$0.75
- $10 million in cash, to be paid in 1 year following closing of the transaction

The transaction raises two questions:

- Why is B2Gold selling these assets for a mere $100 million?
- How will a C$26 million market cap company afford the purchase?

B2Gold is unable to run these mines profitably. Since 2018, political unrest in Nicaragua has impacted their operations. El Limon suffered from work interruptions, delays in consumable deliveries and illegal road blockades. At La Libertad, operations went smoothly but were impacted by restrictions to the supply of key consumables (fuel and lime). The performance of these two mines was dragging down B2Gold's otherwise impressive financial results. Also, the market perception of BTG was impacted by its presence in what investors perceived as high risk jurisdictions - particularly in the Philippines and more recently Nicaragua.



The company made money on those assets and they served well for a foundation for a while but the value driver for BTG going forward is the newly commissioned Fekola mine in Mali that is expected to produce 420-430,000 ounces at a cash cost of $370-$410/oz and AISC (all in sustaining cost) of $625-$665/oz. The Nicaraguan mines have an AISC upwards of $1000/oz these days, with those estimates likely to be revised higher. The rationale for the sale is clear - BTG is selling its higher cost mines so the market can better value the cash flow generated from its lower cost less risky mines.

Why is Calibre buying these assets?

Calibre is a Nicaragua focused prospect generator. The company generates early stage exploration projects and farms them out to major mining companies using the joint venture business model.

The political risk in Nicaragua has made it harder for CXB to attract suitors, upending its entire business model. But through this deal, it can transition into a producer, like B2, reduce its burn rate (the amount it spends on exploration) and generate free cash flow as it waits for better business conditions.

The company is trying to raise $100 million through an equity offering in order to fund the purchase. It is a retail favorite, but never has been a favorite of mine for that reason (typically overpriced) and because its share structure is so loose. However, it has been around forever, and has had many spec/distribution cycles (pumps) over the years.

I'm not sure I'd bet that they have investors already lined up for this deal given the geopolitics in Nicaragua today but should those clouds clear this could turn out to be a shrewd company saving deal for CXB while B2 shareholders can still participate in the potential upside through its 31% stake in Calibre.

B2Gold is one of the few miners that has done what they should have done, which is leverage their balance sheet and make acquisitions in the recessed market, and they bought solid assets that will likely generate growing profits in the years ahead. For example, in 2019, they are expected to generate about $400 million in operating cashflow assuming an average realized $1300 gold price for the year, which we know is low.

So they are trading at less than 10x this number, cheap compared to most equity classes.

But imagine gold prices shoot up to $2k by next year. That would almost triple their cashflow, depending on how fast costs rise, it could mean $1 billion in cash flow in 2020, which puts it at less than 4x that number.

This group will surprise you with its exploration talent once the bull market gets going.

Buy B2Gold as part of our stock portfolio with a year end target of $5 or 6, and a 2 year $10 price target, and as cashflows mount, expect the company to pay an increasing dividend now that it has joined the big leagues.

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