



Banro Corp, A Gold Junior On the Move



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LANCE LEWIS

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I continually get asked about junior gold ideas, and I've discussed juniors **Nevsun Resources** (NSU), **Minefinders** (MFN), **Metallica Resources** (MRB), and **Golden Star** (GSS) before. But I wanted to add one more that I like: **Banro Corp.** (BAA), which is in both Canada and the US and closed up 2% today to \$12.27.

This name is for investors and not traders. My approach has always been to invest in the juniors but trade the seniors and intermediates. At present, the juniors are still lagging the seniors due to liquidity concerns related to the broader stock market (we saw something very similar back in September off the August low). This is the wall of worry that that the gold shares have climbed since August and continue to climb.

As for BAA, it's very similar to **Newmont Mining's** (NEM) recent acquisition **Miramar** (MNG) in that it has no P&P reserves. What it does have, however, is 11.5 mil resource ounces, with 1.3 mil oz being in the "measured" category. So, its resource is even larger than MNG's world class resource was.

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When we apply NEM's \$135 per resource ounce valuation that it offered for MNG (back when gold was nearly \$200 lower in early October) and BAA's 38.5 mil shares outstanding, we come up with a takeover valuation of \$40 a share, or nearly 4x what the stock is today. I also modeled the company based on early scoping studies, assuming only a small portion of its total resource would be moved into the P&P category and then increased the assumed cash costs and capex by at least 25% above what the scoping study determined, and I came up with a similar NAV for the company at \$800 gold, which we're obviously now well above.

Insiders also, interestingly enough, own 14% of the company, and the company just named a new CEO back in late August, Mike Prinsloo, who is expected to transition the company from an explorer to a producer and bring the company's two main projects through construction and into eventual production once feasibility studies are formerly completed next year. These feasibility studies will cost about \$30 mln, but the company currently has around \$37 mln in cash (and no debt). Thus, no financing will be required until the construction stage, which means there is no risk of dilution any time soon.

You can read up on Prinsloo's career history faster than I can discuss it here, but let's just say that the guy is very respected and extremely experienced after some 35 years in the gold mining industry in Africa and having been the Head of South African Operations of Gold Fields from 2002 to 2006.

That's the good part, but as with all mining companies, there's a drawback to BAA. And it is the primary reason that the stock is as cheap as it is, in my view. That drawback is the location of its deposits, and that's because they are in the troubled African country of the Democratic Republic of Congo (DRC), which has seen off-and-on civil war since 1996.

Recently, however, the Chinese have begun to pour money into the country in order to secure access to its vast mineral resources (\$5 bln in loans to build infrastructure and modernize its mining industry were just announced back in September). And money tends to heal all social wounds, given time. Thus, because of this influx of money and a variety of other reasons, I tend to think the worst has probably been seen for the country. At the very least, the country's current problems are more than already discounted into the stock.

Additionally, BAA's mining concession was acquired from the current democratic government, and as a result, there is no risk of the concession potentially being altered, as has been the case with some other miners in the area, like **Moto Goldmines**, which trades up in Canada.

That's the short form of BAA's story. The way I look at it, the company has the upside of an explorer, but the actual gold assets of a junior miner. Thus, one gets the best of both worlds.

Let me also add that BAA is very thinly traded and difficult to buy in the US (although it is somewhat more liquid in Canada). Then again, part of the reason for that illiquidity is because it's so closely held.

In any event, if Minyans choose to buy any, please be patient with purchases, but I do think there's an opportunity in BAA (as well as other juniors) given the way the juniors are currently lagging the more expensive seniors and intermediates. If one is willing to **invest** and not simply trade in the gold sector, illiquidity is not an issue, and that's the approach one needs to have in the juniors. Eventually, if the juniors get too cheap relative to the gold price, senior gold miners will simply begin to buy them, and that's where investors get paid off.

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Position in BAA, MFN, MRB, NSU and GSS.

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