

January 19, 2011

Baobab Sets Its Sights On A 700 Million Tonne Iron Ore Resource At Tete In Mozambique

By Alastair Ford

In a market which is beginning to have real legs, there's no harm in thinking big. Especially not if you're in the iron ore space, where size and scale are of paramount importance to economics, and where small companies routinely talk of huge sums. So, when, just before Christmas, Baobab's Ben James made the bold statement to Minesite that his company might attempt to establish a mine-mouth pelletizing plant at its Tete iron ore and vanadium project in Mozambique, it didn't seem particularly out of the ordinary. Aspirational, perhaps, but not unrealistic.

After all, no-one says they'll have to do it alone, and with Severstal helping out [African Aura](#) in Liberia, the Chinese bankrolling Bellzone in Guinea, Xstrata standing four-square behind Zanaga in Congo Brazzaville, there's plenty of precedent for Aim-traded juniors getting a leg-up from the big boys. At the moment, Baobab is going it alone, if you don't count the 15 per cent stake that the IFC took in Tete not long ago, nor the exploration joint venture over some ground in the vicinity that the company has just entered into with fellow junior North River Resources. Indeed, in that latter deal, it's Baobab itself that's the bigger partner, notwithstanding its relatively modest £30 million market capitalisation.

But Ben's talk of a pelletizing plant speaks of a company with big ambitions for Tete, and that's an impression that he only goes to reinforce when he mentions in the very next breath that actually a smelter might be a real possibility too, although he adds that "it probably won't be us cutting the ribbon". Not at a likely cost of US\$4 billion or so, it won't. But the prospect that Tete might eventually be the beneficiary of some really big spending is made more realistic by the well-established presence of some very big names in the area, albeit most of them are interested in the province's coal, rather than its iron ore. But one amongst the number is Vale, so there ought to be a few iron ore-savvy miners wandering around in the airport lounges of Maputo and Tete now and again for Ben to pass the time of day with as he flies in and out from his home in Australia.

More to the point, the increased activity of the majors shows that, following decades of civil war, Mozambique has now set off down the path to economic growth and regeneration, and has already made plenty of progress. Two other famous names in the vicinity of Tete are Riversdale and Tata Steel, the latter of which owns a chunk of the former, and if anyone still doubts the attractiveness of the region, given the presence of those companies, then the current A\$3.9 billion offer that Rio has put on the block for Riversdale ought to dispel all doubts. It's a big country, for big operators, but there's room for the odd junior too.

In iron ore, Baobab virtually has the field to itself, although others, like North River, are poking around not too far away. So far the company has managed to prove up a 47.7 million tonne resource at the Chitongwe deposit, based on drilling undertaken in 2009, but the current programme, which is now nearing its conclusion, aims to better that. The most recent results certainly look promising, and the literature accompanying their release speaks of the delineation of "a broad package of heavily mineralised magnetite".

The aim, says Ben, is to get up to between 200 million and 300 million tonnes of iron ore this year, with an ultimate target of between 400 million and 700 million tonnes. With the spot iron ore price up at around the US\$180 per tonne level, and Chinese demand for steel forecast to remain strong, that means Tete has plenty going for it, even if the behemoths of the mining world are currently focussing in on the local coal instead.

In any case, for the time being, Baobab just needs to stick to its knitting. The company has a £5 million equity line facility with a Cayman Islands-based fund, and has so far drawn down just £420,000 of that. That leaves plenty in reserve to allow for the boosting of the numbers at Tete over the coming year, and even, potentially, for some exciting exploration news from the new North River ground at Maunde. Watch this space.