

## Storm in a tea “coup”?

28 November, 2017

**The military taking control of Zimbabwe last week provided the momentum for a change of leadership, in what some commentators called a coup. Events were not accompanied by violence, and we believe that the seeds of regime change could ultimately be positive for the investment climate and mining sector.**

**What happened?** The military took control of Zimbabwe on November 14<sup>th</sup> and put 93-year old President Robert Mugabe and his incendiary wife, Grace, under house arrest in Harare. Tanks were seen briefly on the streets of Harare, but the situation remained calm and there was a distinct lack of violence. Whilst the army insisted that it was not a coup, it had many of the hallmarks of one.

**Leadership succession.** Coup or not, the events provided the catalyst to begin a transition of power which has been on the cards for some time. The intervention was precipitated by the sudden sacking of Vice President Emmerson Mnangagwa on November 6<sup>th</sup>, who was reportedly jostling for power with Grace Mugabe. Mnangagwa is a former defence minister and has strong links to the military. Despite initially refusing to resign, it became clear that Mugabe’s iron grip on power was quickly unravelling.

**End of an era.** After demonstrations on the streets and the threat of impeachment proceedings initiated by Zanu-PF, the ruling party, Mugabe resigned on November 21<sup>st</sup>. Mnangagwa subsequently emerged from hiding and was sworn into power on November 24<sup>th</sup>. Quite how all this plays out for Zimbabwe is hard to quantify, but we view any regime change or power shift undertaken within the framework of the constitution as positive for Zimbabwe. Mnangagwa was allegedly associated with atrocities under Zanu-PF following independence in 1980, so the litmus test will be whether democratic elections materialise. We believe that new leadership may allow the government to start tackling issues such as exchange controls, which have previously impeded investment in the mining sector. Mnangagwa quote of the day: **“The task at hand is that of rebuilding our country”.**

**Limited impact on mining.** We spoke to Vast’s management, and operations continue unabated at Pickstone. Vast still has unfettered access to the mine, which in any case is 100km south-west of Harare. Caledonia Mining (AIM: CMCL) also did not report any disruption at its Blanket mine. Pickstone already complies with Zimbabwe’s indigenisation requirement, and we see limited possibility or rationale for expropriation of mining assets in the country, or sweeping changes in mining legislation.

**Value implications.** We view the end of the Mugabe regime as positive for the mining sector, as it will help to shrug off the heavy risk discount attached to Zimbabwe assets. We value Vast’s Pickstone mine using an onerous 12% discount rate. If we see a tangible decrease in political risk, we would look to reduce our discount rate. Using 8%, our **Pickstone NPV increases by 33%** to \$32m from \$24m, based on Vast’s 25% interest.

**Funding update.** Vast has raised £1m at 0.525p/sh via a placing and proposes to raise a further £1.23m at the same price in an Open Offer to shareholders. The funds provide a stop-gap while the company finalises debt finance and other non-dilutionary mechanisms to satisfy its \$10m strategic financing requirement. Vast reports that it has started an off-take contract bidding process with metal traders.

### Company Data

EPIC	VAST
Price (last close)	0.63p
52 week Hi/Lo	0.78p / 0.10p
Market cap	£31m
ED valuation/share	1.03p
Shares in issue	4,877m
Avg. daily volume	78m

### Share Price, p



Source: ADVFN

### Company Description

Vast Resources plc is an AIM-quoted resource development company that converted from an exploration company to a mining company in 2015, with two operating mines; the Manaila polymetallic mine in Romania (100%), and the Pickstone-Peerless gold mine (25%) in Zimbabwe.

Vast has several growth projects, the most important being the planned re-start of the Baita Plai polymetallic mine (80%) in Romania, which the company plans to commission shortly.

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