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Borneo Oil a strong proxy for gold

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Sharp rise: Borneo Oil, which also owns fast food restaurant chain SugarBun, reported a sharp jump in group pre-tax profit to RM7.6mil in the quarter ended April 30 from RM525,000 a year ago as revenue soared to RM1.49bil from RM14.6mil.

THE steep rally in gold prices this year has helped to push up the shares of Borneo Oil Corp Bhd.

At its July 22 close of 18 sen, the stock has outperformed the FBM KLCI with a 16% gain for the year, tracking the 25% increase in gold prices over the same period.

Shares of the company are consistently among the most traded in terms of volume in recent months due to its nascent mining venture in Pahang which have already yielded a considerable amount of gold inventory.

With spot gold now trading at around US\$1,330 per ounce, the company's total inventory is now estimated to be worth RM103.96mil.

As at end-June, Borneo Oil's gold inventory amounts to 19,301 ounces, or about 600 kg.

In the quarter ended April 30, 2016, Borneo Oil, which also owns fast food restaurant chain SugarBun, reported a sharp jump in group pre-tax profit to RM7.6mil from RM525,000 a year ago as revenue soared to RM1.49bil from RM14.6mil

Borneo Oil had attributed the substantial jump in revenue to the sale of gold investments, adding that the increase of inventory to 529 kg was due to investments in gold.

However, there were few further details on the breakdown of its gold mining-related earnings in the company's earnings announcement.

"There is a lack of clarity as to how the company reported just RM6.9mil from its mining division despite the large revenue bump of RM1.48bil.

"The exact nature of the so-called sale of gold investments has also not been disclosed in detail yet," quips one analyst of a bank-backed research house.

The company said it had taken advantage of investing in gold for the past year in the belief that low gold prices were temporary as the precious metal was trading below the industry mining and production costs.

While some may attribute the recent buying interest in the shares to speculation activity in penny stocks, particularly given the company's vast share base of 2.37 billion, Borneo Oil has already secured some prominent backers in its ventures and is not short of cash at present.

The Sarawak-based Hap Seng Group, which led by the Lau family patriarch Tan Sri Lau Cho Kun, is a major shareholder in the company through stakes held by several investment entities. Among them are Lei Shing Hong Securities Ltd and Victoria Capital Ltd, both of which are based in Hong Kong.

Collectively, the stakes amount to more than 40%, a part of which were acquired following a rights issue exercise in November last year which raised RM228.8mil for Borneo.

The company is investing in a 'heap leaching' plant to extract gold from the Bukit Ibam mine in Pahang following positive results of gold deposits from a six-month exploration activities.

The phase one exploration works has indicated inferred gold resources of 1,891.5 kg for Bukit Ibam. The gold resources are embedded in about 6.27 million tonnes of oxide and fresh ore.

Based on the company's metallurgy tests, the oxide ore is suitable for the heap leaching process.

Borneo Oil said the proposed plant using "earth gold" in the leaching process had been approved by the Minerals and Geoscience Department.

Earth gold, according to the company, is a non-cyanide gold extraction agent which is environmental friendly and designed to replace sodium cyanide in the gold leaching process.

“The initial investment cost of the heap leach plant (project), including infrastructure works, is estimated to cost RM2.5mil, with an initial capacity of 7,000 tonnes per cycle.

“The plant is targetted to be completed by end of August and commercial operations will begin in September 2016,” Borneo Oil said in a filing with Bursa Malaysia.

The mining operations is undertaken by wholly-owned subsidiary Borneo Oil and Gas Corp Sdn Bhd (BOG).

Bukit Ibam, which lies within the Peninsular Malaysia eastern gold belt that extends from the north of Kelantan to Johor, covers some 485ha, of which 187ha has been issued with a mining lease.

In March 2015,BOG entered into an exclusive production sharing agreement with HDL Global Sdn Bhd for a period of 20 years.

As of April 30, 2016, Borneo Oil said it had utilised about RM83mil from proceeds of RM228.8mil raised from a recent rights issue in gold mining operation and exploration works.

The expenditures included RM66.3mil on working capital for the mining operations, RM8.9mil on exploration works and RM7.7mil for the purchase of mining machinery and equipment.

A further RM22.3mil has been set aside for the purchase of more mining machinery and equipment, RM9.3mil for working capital and RM6.1mil for exploration works.