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Pelangio ready for a promotion

One could be forgiven for losing track of the Pelangio Exploration story. In the past three years, the company has averaged just nine press releases per annum, using the bear patch to conserve cash and energy.

Yet, with junior explorers and those looking to fund them awake and realising there are few good gold projects coming through the ranks in, Pelangio is upping the ante.

This year alone, the company has pumped out 15 releases, with the latest two (both related to funding) showing its recent promotion is paying off.

For those unfamiliar with Pelangio, it is worth going back to 2013.

Back then, the company published a maiden 195,000 ounce indicated resource grading 1.52g/t alongside 298,000oz of inferred material (0.96g/t) at Manfo, its flagship project located on Ghana's prolific Sefwi belt.

This was hardly earth-shattering news in a gold market on the decline, but the company, at least, set down a marker that showed its drilling to that point was 43-101-resource-compliant.

As the bear market took hold and with it Pelangio's hopes of building up a 1 million ounce resource in short order, investors forgot about the Toronto-listed junior.

This is despite it holding one of the hottest land packages in this part of West Africa - an asset on the edges of the country's oldest and richest gold mine (Obuasi), a project on the same fault system hosting Kinross Gold's Chirano operation and Resolute Mining's historic Bibiani mine (Manfo), and an early-stage prospect that has some large geochemical anomalies worth following up (Akroma).

Yet, its 523 sq.km in Ghana is back in demand, with gold stories in this part of West Africa particularly hot.

One of the most prominent West African exploration stories in years has come out of the country's north - Cardinal Resources' Namdini - majors such as Gold Fields (Tarkwa) and Newmont (Ahafo) are investing billions of dollars to sustain in-country operations, and several other residents are looking for gold feed to fill up hungry mills.

Pelangio represents much more than the latter, but few investors outside of the share register realise this.

They see a good land position, a resource base spread over three zones at the flagship project totalling a modest 493,000oz and a management team that might have been ‘lucky' with the 8,600% return it delivered to timely investors during the previous cycle.

CEO Ingrid Hibbard is philosophical about the company's lack of investor relations over the past few years.

"When everyone hates gold, don't keep talking about it," she remarked to a packed room of investors in London last month.

That advice was applicable a few years ago, but times have changed, hence Pelangio's first investor lunch in London for some time and a much more active IR effort.

Still, the market Pelangio now finds itself in is very different to the one that funded its drilling ambitions in the early part of the decade.

Pelangio is not in the ‘free cash flow within a matter of years' game that has proven popular during the recent bear patch. There is no plan to start mining a small starter pit at Manfo that can grow over time from existing cash on the balance sheet.

Pelangio is thinking much bigger, with multiple pits and, potentially, a couple of operations.

It harks back to the Pelangio of old and that enormous investor return.

This came from the sale of a district-scale exploration play that will soon compete for the mantle of Canada's biggest producing gold mine.

The Detour Lake gold project was once a Pelangio asset that, in the previous cycle, was sold off to Gerald Panneton and co for C$5 million (US$3.9 million) and 20 million shares. Those shares soared and with it the returns for Pelangio shareholders.

Detour Lake produced 537,765 ounces of gold last year and looks set to keep operating for, at least, another 23 years at an average of 656,000oz per annum.

One needs to take a bit of a leap, but the current team at Pelangio believes it could end up doing this again in a new bullish cycle for gold, but this time in Ghana.

There are many potential backers that will require convincing.

The new breed of equity investors are not used to putting money into juniors with exploration potential on the basis they will inevitably get taken out at a premium by a much bigger peer able to fund what could end up being billion-dollar mine builds.

This is what the Pelangio investment represents and, along with a lack of drilling over the past three years, is why the company has not gained the sort of recognition Cardinal has at Namdini.

But, while Manfo has not seen a drill bit for the past three years, it is now set for some action.

The team is working on convincing potential investors it has an elephant in elephant country.

The current target Hibbard talks of at Manfo is a 2-4 million ounce resource. That sort of number gets people looking twice and warrants the set up of a data room.

With the company nearing the $2 million it requires for the latest drill programme - it raised $579,000 in August and has recently received another $525,000 as part of a larger $1.2 million private placement - the ounces could start piling on.

Head of exploration Warren Bates and African vice president Sam Torkornoo have been busy during the downturn planning this programme.

They spent 18 months trawling over all the data at their disposal, checking satellite imagery and visiting site to see where artisanal miners had been operating since it finished drilling in 2014.

A rigorous review of regional- to prospect-scale geophysics, geochemistry and geology resulted in the discovery of an additional 9km trend of belt-bounding structures that Bates is keen to follow up on with the drill rig.

This has also seen the company become much more confident in the use of geophysics to target mineralisation at Manfo. This will be of particular importance on the eastern side of Manfo, where the 9km trend is located, as 85% of it is covered by a cap masking a geochemical response.

Even better for Pelangio, it happens to have access to a grasshopper drill rig it can use at 50% of the going market rate. This means its $2 million exploration programme can stretch to approximately 40 target areas using AC, RAB, RC and diamond drilling.

The main focus will be on following up previous drill intersections at Pokukrom East (one of the three zones making up the maiden resource) and Nkansu (one of which intersected 49m at 1.18g/t), and carrying out reconnaissance work on new targets within the new 9km trend.

Hibbard points out that the current programme will not so much define a 2-4Moz resource, as show Manfo has the potential to host one.

For this, it will need solid drill intersections, backed up by preliminary metallurgical work, at multiple pits that indicate growth potential.

Ticking all of these boxes should lead to more attention.

Yet, Pelangio will require a savvy CEO that can ensure it doesn't get bought out by a bigger peer before its investors start to really appreciate the value it holds in Ghana.

That is the biggest worry and where Hibbard, a lawyer by training, will more than earn her salary.

With a market captialisation of $8.6 million and a share price of $0.04, any takeover offer - even one with a generous premium attached - is unlikely to do justice to a company and set of projects that could have the sort of district-scale potential Detour Gold is now leveraging off in Ontario.