



## DEALS

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## Endeavour Mining swoops on Semafo to create top Burkina Faso gold miner

By Helen Reid



JOHANNESBURG (Reuters) - Endeavour Mining [EDV.TO](#) said on Monday it will acquire Toronto-listed Semafo [SMF.TO](#) in a C\$1 billion (\$690.7 million) deal to create the biggest gold producer in Burkina Faso, increasing its focus on the country despite rising insecurity.

The combined group will produce 1 million ounces of gold a year, Endeavour Chief Executive Sebastien de Montessus said, making it larger than Newmont Goldcorp, Barrick, and Goldfields in West Africa.

Endeavour shareholders will own about 70% of the combined company, with the rest going to Semafo shareholders. The deal represents a premium of 54.7% to Semafo's Friday close, Endeavour said in a statement.

Endeavour shares fell 7.9% at the open, while Semafo jumped 31.2%.

Semafo shares have halved in value since the start of November last year, when a convoy of employees was attacked near its Bounboua mine in eastern Burkina Faso, causing 39 deaths and halting operations at the facility.

"After the attack, I think Semafo probably felt that two mines in a consolidating market was not enough, and that teaming up with Endeavour was a good way to grow," said de Montessus.

Semafo's CEO Benoit Desormeaux was set to become president of the combined group, while its chief financial officer Martin Millette will become the group CFO.

“We are very excited about this announcement,” Desormeaux said on a call with investors.

“For Semafo shareholders this transaction offers the benefits of both an immediate premium, and the chance for a significant re-rating within a combined entity.”

The deal is set to close in June, and de Montessus said the coronavirus pandemic was unlikely to disrupt the planned takeover.

Endeavour last week reported an employee at its Hounde mine tested positive for the coronavirus, though the facility continued operating.

Mining shares have plummeted due to the coronavirus pandemic, making dealmaking more attractive. Global miner BHP [BHP.AX](#) said earlier this month it is in “good shape” to act if disruption from the virus brings M&A openings.

But de Montessus said the deal’s timing was not linked to the virus and discussions with Semafo have been ongoing for 14 months.

The combined group would have a production cost per ounce of around \$900, in the bottom third of the industry cost curve, de Montessus said, and a leverage ratio of 0.7x net debt to earnings before interest, tax, depreciation and amortisation (EBITDA).

Gold [XAU=](#) stood at \$1,520 an ounce by 1336 GMT.

The group’s cash position will be helped by a \$100 million cash injection from Endeavour’s top shareholder, private gold investment firm La Mancha. Due to a redistribution of equity as part of deal, however, La Mancha’s stake will drop from 31% to 25%.

## SECURITY CONCERNS

Semafo said last month it expects to restart mining at Boungou in the fourth quarter. De Montessus said he is “confident” the mine can restart before then.

“Despite the dramatic security issue back in November, Boungou is a great asset on which Semafo has done limited exploration so far,” he told Reuters in a call.

Endeavour has been looking at the new security plan for Boungou, de Montessus added, without giving details. He said he informed Burkina Faso’s president about the transaction, and that he was “very happy” and “supportive”.

“I believe the combination of the two groups will help reinforce the overall security around our different mine sites,” said de Montessus.

However, investors are likely to balk at the increased Burkina Faso exposure Endeavour is buying into, analysts at Berenberg said.

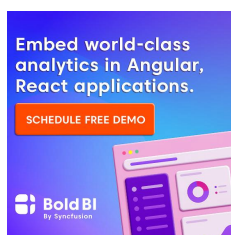
“Safety of people is vital and we think that this will be a key question for Endeavour’s management,” they wrote in a note.

Reporting by Helen Reid and Arathy Nair; Editing by Louise Heavens, Nick Zieminski and Jan Harvey

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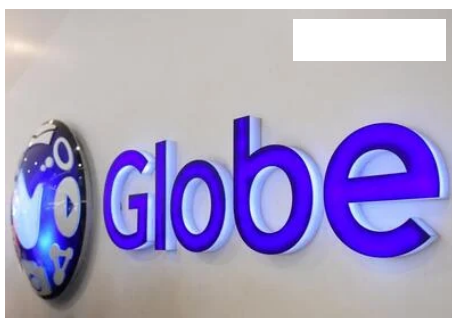
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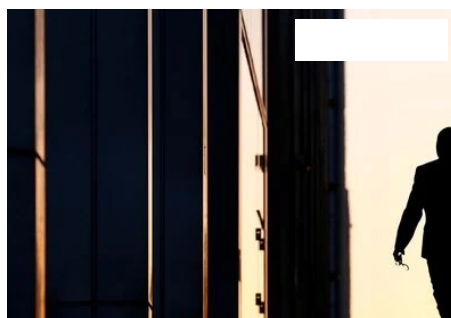
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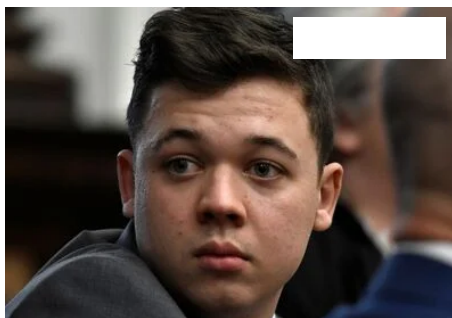
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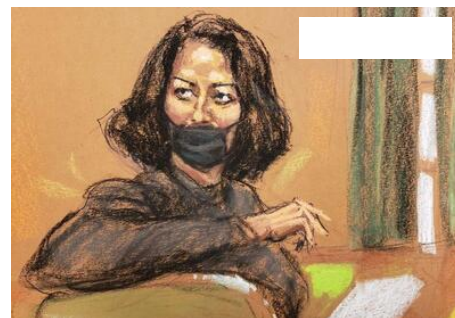
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