Company Name: Randgold Resources
Company Ticker: RRS LN
Date: 2018-05-10
Event Description: Q1 2018 Earnings Call

Market Cap: 5353.80886054
Current PX: 5674
YTD Change($): -1772
YTD Change(%): -100.0

Bloomberg Estimates - EPS
Current Quarter: 0.758
Current Year: 3.46
Bloomberg Estimates - Sales
Current Quarter: 384
Current Year: 1290.625

Q1 2018 Earnings Call

Company Participants

- Christopher Lewis Coleman, Chairman of the Board
- Dennis Mark Bristow, CEO
- Graham Patrick Shuttleworth, Financial Director & CFO

Other Participants

- Alain Gabriel, Equity Analyst
- Alan Henri Spence, Equity Analyst
- Grant Sporre, Head of European Metals and Mining Research
- Jatinder Goel, VP and Analyst
- Tyler Anson Broda, Director, Global Mining Research
- Xiaofei Du, Research Analyst

Presentation

Christopher Lewis Coleman, Chairman of the Board

Ladies and gentlemen. Good morning. Welcome to the Randgold's Q1 results presentation.

Earlier this week, Randgold Resources held its Annual General Meeting, where shareholders approved all of the resolutions, including the board's proposal to double the 2017 dividend to $2 per share. We believe that these AGM results reflect the direct interaction of the board with our shareholders. And this forms part of an important -- sorry, this forms an important part of the company's year-round communications program of presentations, road shows and participations in industry forums. We treat these regular meetings as occasions to brief investors and, equally importantly, to listen and to learn from them. Just as Randgold has built a management team with multifaceted skills and high degree of motivation, also, we have assembled a board that combines a global perspective and expertise with a firsthand understanding of African conditions. The composition of the board is constantly reviewed to ensure that it's diverse but also complementary. And at a time when gender equality is in the spotlight, I am proud to say that 3 of our 6 nonexecutive directors are women and 2 of them are African.

As is often the case when it comes to operating in the jurisdictions that we do, this last quarter, the company was faced with some challenges and the fact that it's dealt effectively with

(technical difficulty)

challenges is a tribute to the efforts of the management team that's firmly embedded in and demonstrably committed to its host countries. Randgold

(technical difficulty)

unquestioned status as a creator of value for all its stakeholders and the social license that it's earned over the years, have equipped it well to cope with occasional turbulence in the operating environment. And we recognize that the risks faced by investors in the less developed regions of the world but also cognizant of the opportunities presented by untapped resources and the importance of participating in the host country's economic growth.

So with that, I'd like to hand over to Mark for a detailed review of the quarter and also a look ahead at the prospects for the rest of the year. Thank you.

Dennis Mark Bristow, CEO

Thank you, Chris. And good afternoon, ladies and gentlemen. And also hello to those who are going to be logging in on the webcast. It's a pleasure to welcome you (inaudible) see again. And I would just point out right at the beginning that at the start of the year, we flagged to the market that we expected a slower start to 2018 with lower grades anticipated. And as it happened, these conditions were further complicated by additional challenges, particularly an extended work stoppage and a rolling strike or industrial relation situation at our Tongon operation. Production for the quarter was consequently down on the record prior quarter, while costs were up. But the important takeaway from the First Quarter's results is that multiple challenges were effectively dealt with. And we remain on track to achieve our annual guidance. As we often say, we do not manage our business from quarter to quarter. And to this intend -- I intend to share with you the continued progress we have made in our business as we continue, as Chris said, to strive in our quest to create long-term value for all our stakeholders.

Starting as usual with the -- with our sustainability scorecard, all our key accreditations were renewed and our operations are now migrating from the old OHSAS standards to the new ISO 45001 health and safety management systems. The incidence of malaria at our operations was again reduced. And our HIV/AIDS programs have now transitioned to a new initiative. And we've been very successful in our HIV/AIDS programs particularly in the DRC, which is the one with the highest incident rate out of all our operations. And our new plan is to work alongside the health departments of our host countries. And our target is that we have -- we aim to have 90% of our employees tested and 90% of those found to be positive to be under treatment, with 90% of those being treated being symptomatic-free. And again, as I say. So far, over the last five years, we've increased the voluntary testing percentage of our workforce every year substantially. And we've been able to show a decrease in the incidence rate even though the voluntary testing numbers had -- have increased.

We, again, have just recently published our sustainability report with our 2017 Annual Report in March. And for those who are interested, you can view it online. It's worth pointing out that our sustainability strategy is an integral part of our business process, which is designed and managed to deliver real results. All our operations, apart from Tongon which will be audited later this year, achieved the new ISO standard in environmental management. And as you can see here, we continue to improve our water and power usage efficiency. And we're also continuing to partner with some key heritage sites across our host countries and leading significant environmental and biodiversity initiatives.

Turning now to the results and the salient features thereof. Despite, as I pointed out, the lower production and higher costs, the business remained profitable, while cash and cash equivalents rose to $739 million with no debt, no impairments and supporting, as Chris pointed out, our $2 per share dividend and still leaving us with enough firepower to be able to continue to fund any new growth opportunities. But for the timing of the Easter weekend over quarter end, cash on hand would have been higher by an additional -- just below $30 million just to put it in perspective because -- relating to outstanding gold receipts from the Loulo contract complex which -- because of the Easter weekend, we had shipped but we didn't get the revenues in the -- on time for the end of the quarter.

The highlight of a busy quarter was Kibali's successful production ramp-up on the back of the commissioning of its underground operation. And I'll come back to that later. And we also had -- and sometimes, it's all I can see in this morning. It's already been lost in the noise. But we had a very good exploration run over this last quarter, which delivered new resources and reserves as far as our 2017 reserve statement is concerned and also pointed to additional opportunities to continue to roll our 10-year plan and, again, progress on greenfields projects. And probably, the most important is the work coming out of Tongon, which is pointing to some very significant and exciting new opportunities. Despite the soft start, we still have our production target of 1.3 (TAT). And again, as -- our forecast still points to a comfortable cost forecast all sitting again in our -- within our guidance of $6.90 to 6 -- I mean, $5.90 to $6.40 per ounce. Tongon is planning to recover most of its lost production. And again, I'll touch on that when we get to Tongon specifically. And Loulo-Gounkoto is in plan. And the Kibali, for the first time, is slightly ahead of plan at this stage.

So moving on to specific operations. For those analysts that take our annual guidance and divide it by 4, you always -- you'll eventually get to the point by the end of the year of saying we outperformed. And the planned lower grade was further impacted at Loulo by a sequencing issue at the Yalea underground mine. But all the other operations were being on plan. All in all, the complex delivered an in-line quarter with higher plan throughput and good recovery rates helping to offset the lower feed grade.

On a stand-alone basis, if we just look at that quickly, Loulo has resolved the mining sequencing at Yalea, as I referred to just now. And offers slight delay on mining in the start-up of the satellite pit at Baboto. We're now back on track both with the satellite -- the commissioning of that Baboto satellite pit. And the rationale behind that, as we shared last time we spoke, is to mine out the oxide portion of the Baboto pit. It gives us flexibility to be able to manage the tight operating conditions in the pushback of the Gounkoto pit. And it also takes out the oxide and takes away the risk of illegal miners exploiting that deposit, which is some way away from the main processing plant installation. Ongoing exploration continues to highlight potential for further reserve replacement at the same grade. As you can see in the little -- and you will see these little insets in all the specific operational update slides. And that is -- the last year's reserves and resources, the latest 2017 updates and, of course, the blue square, which indicates the grade of those resources.

On the numbers, they very much speak for themselves. And as already indicated, Loulo's numbers were impacted by the lower grade from all sources leading to higher cost per ounce, while throughput and recovery were good in the plant, continue to run extremely well.

Just coming to some of the specifics on the underground power interruptions relating to a component failure of one of the baseload gen sets while we had 2 of the other baseload gen sets on maintenance, led to the necessity to shed some power during the quarter. And we did that by closing down the part of the paste backfill processing plant. And that forced us to reschedule the mining sequence underground just because we couldn't mine the secondary stopes until we backfill the primary. That was the most efficient way to manage that situation. And we'll get back to the sequence through the year. And so we don't foresee that as impinging on our overall guidance. And I would just point out that both these issues have been resolved and resolved properly. We had anticipated the risk of the -- taking the 2 -- the failure of one of our newer machines. We were caught for a couple of weeks. But we now covered that. Everything's back to normal. And we have also recently ordered -- we are moving our baseload from 5 megawatts to 7 megawatts. And we will have a new 7-megawatt generator to join the baseload installation early next year.

On the upside, results from advanced grade-controlled drilling at Yalea South continue to confirm the significant additional reserve potential, with recent intersections (hovering) above 10 grams a tonne at an average true width of 8.8 meters. And that's in what we call a south extension or plunge -- down plunge extension. Yalea resources on the right of this long section, really, we're pointing on -- and our estimate is about 850,000 ounces of potential. And you can see the purple and the red. This is more a red zone rather than a purple zone. Then just for those geologists, sometimes, when you look up there, right is south. So just to give you a feel of where that zone is that we're chasing. On the deep -- straight deep down, you will see some blue blocks coming out right at the bottom of the reserve model. Those intersections have been lower than what we expected. So we've gained on the southern extensions. But I would point out that the gap between that sort of deep area that we have been exploring and the main purple batch have given some particularly exciting and high-grade intersections. So again, when we come to the end of this year and the reason I'm pointing this is we're pointing to our ability to replace the ounces again at Loulo through the year.

Similarly, at Loulo 3, we continue to test the down plunge extensions with results confirming the high-grade nature. And I'll make the assessment of this target and to confirm its resource status before we move to infill drilling and the (banking well). And as part of this pushback, as I pointed out in the introduction, there is a period of restricted mining, which causes some waste dilution and the necessity to mine the orebody as we access it rather than being able to manage the feed grade by mining multiple benches. And that has resulted in the lower grades being mined as forecast. Reserves and resources came close to being replaced. Again, as you can see here -- and the reserve grade was maintained at 4, 6 grams a tonne.

And here are the numbers that show the effect of the reduction in the feed grade. And it's worth pointing out that the feed grade at 3.5 grams a tonne is significantly below the reserve grade of 4.6 grams a tonne. So everything points to us being able to claw that back as we progress with the mining of this super pit. As at Loulo, we continue our search for additional resources with the regional focus being the extensions to the Domain Boundary, which is a major geological break that coincides with the Gounkoto orebody. And also the Faraba trend, which is a subparallel structure to the east of the Domain Boundary structure. And we -- also at Gounkoto itself specifically, we continue to test the orebody extensions around the base of the super pit. And we expect to be able to update you on that work at the next presentation.

This is an overview of the whole Loulo district. And as you can see, we have had an abundance of targets. We're confident that it has the potential for continuing resource replacement. And that supports our rolling 10-year plan. And we're still running that at $1,000 -- a long-term gold price of $1,000 an ounce. And at the same time, there is still very much opportunity to make new primary discoveries within this 35-kilometer gold province.

We move now to Senegal, where the Massawa project is making steady progress with the next milestone being the middle of this year. And at this stage, it looks set to achieve our investment criteria of a mineable 3-million-ounce deposit capable of delivering a 20% return on investment. In the meantime, we've had our first meeting with the interdepartmental government committee with which we will work and be able to clear out all the various permissions as we move to finalize the bankable feasibility study. The project itself comprises a number of orebodies within our Kounemba permit. And the key ones are shown here. The team has been testing multiple targets and key structures around Massawa with some of the best results highlighting the potential to add further ounces at Delya, the KB series of deposits and Kaviar and, of course, ongoing around the Massawa deposit itself.

And talking about the Massawa deposit, it's self-drilling over the past quarter, has returned strong results from the Central Zone. To the south, the grades are higher than models with free milling ore and significant free gold and good whole ore leach results. And that's a surprise. That's -- the drilling is currently confirming continuity to upgrade the geological model. So -- and so far, really, the focus has been on the most prominent, quite a lot of work to do. Even amongst our geologists were not aligned fully with the controls, the geological controls of this mineralization.

Back in Mali. Morila has successfully mined and rehabilitated the Domba satellite pit and is now again processing the tailings material while it awaits the final go-ahead to mine the Ntiola-Viper project, which is 2, tiny orebodies that were acquired from Birimian.

As usual, Morila delivered a steady set of numbers and remains profitable even at these lower grades. And it continues to operate efficiently as it heads towards closure. And I would just point out that we are moving to closure whilst we manage the legacy initiative. And so current reserves of the tailing materials are scheduled for retreatment until the First Quarter of 2020. And the exact timing of the final closure will be affected by the mining of, as I pointed out, Ntiola and Viper deposits, which are the assets we bought from Birimian. In the meantime, on the legacy project, we continue with that initiative. And I was just pointing out that we are very committed to closing the mine. We are now out (intent) on demolition. And at the same time, we are working with our external advisers and the various government ministries to get endorsement of our legacy project. And so far, we have 6 of the 13 ministries involved, having already given their support.

Moving then further south to the CÃ´te d'Ivoire. In Tongon, we produced a credible set of results at this operation as the management had to cope with the rolling industrial relation situation, as I indicated in the introduction. Throughout its life, you will recall, those who have followed us all the way, Tongon has been affected by a complex and challenging sociopolitical environment, the legacy of a long civil war. And it has coped well with this difficult situation. The latest challenges have had a positive outcome in that it has brought the mine management together with its employees and the various union groupings and representatives of local government, led by the central government authorities. And together, they have agreed to a convention to find a solution together and to be overseen by the government in the form of the chairperson being the labor inspector. And there's a commitment by everyone to process this issue and to deal with it specifically under the labor and other laws of the CÃ´te d'Ivoire. And we've -- the reason we got to this point is -- as you know, this has been going on for a couple years and we had to take a stand and say, "Look, we all need to get this thing dealt with." We can't always have -- every time somebody else gets an increase or there's a retrenchment of soldiers from the war, something else that -- there's a demand that's put on the table that has no significant basis and then -- but at the same time, I believe that our team has managed this sensitive situation extremely well in that we never ended up in an uncontrolled situation. And as you know, that's not -- that can really turn nasty. And we've gone past that and found a collective way forward where everyone signed up to the program.

Operationally, the team did a very good job, as I pointed out, keeping the mine going through the stoppages and partially offsetting the low throughput by supplementing the (inaudible). That's the low discharge (inaudible). It comes out at the same grade as the feed. And we did this using outside contractors. We also stabilized -- used the opportunity to stabilize the processing plant. You see the recoveries up. So that's a good thing. And we also took the opportunity during the time when we were only running one mill to take the second mill and upgrade it, as we did the first mill last year. And put a bigger, 8-megawatt motor onto the mill and upgrade the grate discharge system so -- that we have now embedded a higher throughput capacity for the operation. And this has been an important component of our recovery plan, which we've now settled. And again, I will just point out engagement with our employees.

And so we're guiding 280,000 to 290,000 ounces for the year, which, just to remind you, 290,000 is the guidance we've given for this year. So -- and if everything works perfectly, we'll be at the top of that range. We have no intention to sort of try and focus on the bottom of the range. And so I think we'll -- and this operating team is a particularly efficient team. It always has been. It runs this moderate grade mine very well. And so -- and I'd just also point out Tongon. Our commitment is to develop local skills to move our operations to be managed by local executives. And Tongon itself has now only got 15 expatriates in the mine. So it is very much an Ivorian operation. And it's done really well in managing this situation. The completion of feasibility studies on the Seydou South and Sekala satellite deposits and an additional 23,000-ounce grade control gain in the main pits also contributed to a partial offset of depletion in 2017.

And Tongon's grid power supply was impacted by voltage and frequency fluctuations, as has been the norm for the last sort of 6 quarters. And at this time of the year, it's always at the end of the race, the dry season, before the real rains start. There's a little bit more impact on that. And the major driver is that Ivory Coast is a big exporter of power and the mainline -- we're on that mainline. The utility is putting in a loop which will guard us against the exposure to that international line. And we've been reporting on that for some time. It's on track for later this year. And then that problem should go away. But that also added a little bit of the -- to the costs for the quarter.

This is what I touched on in the introduction and that is -- you'll remember that I talked about reshaping the exploration team at Tongon, bringing in one of our hotshot group exploration, greenfields team, cleaning up the data and saying start again. And it's been an exceptionally successful process. And you'll see that, that red line is the continuation of the main structure that hosts the 2 main orebodies. And we've got some results out of the Nafoun East, as you can see there, significant results. They're drill hole results, RC and diamond hole. We've got actually 2 diamond holes now and they are -- they really are worth paying attention to. It's about a 200-meter strike open on all sides. It's a very early stage in this project. That red line is an arsenic anomaly. And it's coincident with a very well-structured gold soil anomaly up to, in places, 1 gram a tonne.

And the Djinni target, which you see indicated there, we just put a trench in -- at that point. And we're waiting for the results. No. There they are. See the -- Joe's put them in 15 meters. They're just under 5 grams. I was going to say I've seen the change before the results came back. It was going to be a good result. I was about to say, "Watch out, the results are going to be good," but (inaudible) rather than the presentation. And we've done another trench, 2 kilometers away on the same strike. And we've intersected exactly the same, looking mineralization. So -- and I don't need to explain to you that if we can add a significant reserve into Tongon, it changes that. It's the best discovery you can make. It's like we did with Gounkoto when you've got the infrastructure already established. And so if we could extend the (life). And so that's the excitement in our team for this.

On the -- elsewhere in CÃ´te d'Ivoire, we're busy with a high-resolution VTEM geophysical survey in our Boundiali permit, focused on -- or targeting the Fonondara structure, as you see here. And this is just about complete and we'll be -- they were using that -- to define these, we've got multiple mineralized deposits, small ones along the structure. And we need to try and put that all together.

And we're also moving that survey across through the Mankono and the Endeavour joint venture to the north, which, to date, are constrained by data. And obviously, we don't have enough data. That's about it, (bottom) the model out. But it's early days still. And there's a lot to do. And we also are moving south of this main, what we call, Gbongogo intrusive, which is mineralized, following a number of mineralized occurrences in multiple styles of intrusives.

Then to the north of Gbongogo, Randgold's joint venture with Endeavour is now attracting our attention. We've got a full team deployed up there. And it's a 10-kilometer trend on the same (limb of a) regional fold, as we see in Gbongogo. And certainly anomalous with a number of multiple mineralized intrusives again. And we see this as a very exciting footprint with -- and we know that when you get gold mineralization, big structures, folding and intrusives, you need to pay attention. So -- and that's why we approached Endeavour to join us in expanding this landholding into more of a sort of provincial look rather than just a specific target look.

Zooming out, this is a bird's eye view of our Ivorian portfolio. And as I've noted before, it's a highly prospective country, still relatively unexplored. And in addition to our growing portfolio, Randgold is also participating in a big data expansion survey initiative in joint venture with Newcrest and the government of the CÃ´te d'Ivoire.

And eventually, how's the big positive of the quarter? Kibali's performance. Towards the end of last year, as you'll recall, everyone was a little concerned about Kibali as we embarked on automation ramp-up, underground and the commissioning of the shaft. That's all behind us now. And we are able to show a very clear ramp-up, which I'll do in a minute. I'm sure everyone wants to hear about the new mining code debate. We continue to participate in the ongoing engagement with government and other stakeholders, as announced, after our meeting with the country's president. We submitted a formal proposal designed to address our specific concerns. And we continue to believe that a mutually acceptable solution would support and encourage the substantial investments that the Congo requires for optimal development of the country's industry and, more importantly, economy.

Total cash cost at the mine were up on the previous quarter as a result of higher planned strip ratios, significant strip ratios we have compared to last quarter. And increased power costs. I'll show you that that's just a seasonal effect and -- but profit nevertheless from mining -- that's before tax and depreciation, increased substantially to $106 million. And as far as all the other points, I think the arrows are in the green.

With the commissioning of the automated shaft -- and this is a full automation, proper automation in the middle of Africa, where our bottom collection, haulage and all -- handling, along with the feed into the shaft hoisting to surface and all the way to the processing plant, is fully automated. And we actually operated from surface. So the first in -- certainly in Africa and definitely in Africa and gold mining. With the commissioning of this automated shaft and haulage operation, there's been a significant increase in ore mined and hoisters, as you can see on this graph. And the ramp-up still has some way to go. But at this stage, we're ahead of guidance. And it's worth noting that the grade will continue to (improve) because the grade sits on the underground as we increase the underground feed. And I would just point out that if you look at the March performance, 6 million tonnes a year rate. So again, all those -- I've spent my whole career being anxious about the targets, being a habit. And I would point you to remember when we talked about the 100% sulphide feed in the processing plant and we had (wobble) two years ago, now that's a habit, not the habit of bad performance but a habit of good performance. And in the meantime, our team has not only focused on this but also well advised.

And here, you can see the impact of the mine's hydro-to-diesel power ratio. And you can see that the blue is the hydro contribution to the power generation. And the yellow is the thermal fuel. And so in the dry river periods or dryer -- it's never dry but dryer, we use more diesel and the cost go up. Then the -- in the high river flow periods, you can see that we -- our costs coming down very low to sort of $0.07.

We are busy with the third power station. And everyone -- I mean, one of the things that Randgold and Kibali has done very successfully is to deal with everything that -- in Congo, everyone usually talks about but never gets around to doing. And we were -- everyone in the Congo talks about hydro opportunities and low-cost power. Never -- no one ever does that. And we're very proud of the fact that we've been able to build. And this is our third hydropower station. And I would point out that this has been built by 100% Congolese contractors. So we started with international contractors in our first hydropower station. Our second one, we had a mixture. And we had trained the local contractors to a point where they were able to take on this challenging civil project. And as you can see, it's not a small undertaking. And we now have the water flowing through the gates. And we're busy extending -- on the right-hand side, you see the wall. This is the (rear) wall that will complete across the entire width of the river. And we should be starting to draw power from this power station at the end of July. Then, of course, we are -- we've got a couple of minor -- but that brings to the end, the capital projects. So anyone looking at our capital burn rates and doing that old trick of times 4 or divide by 4, it's not going to happen in Kibali because the capital comes off quite quickly after July, just as a heads up. And of course, we're also lifting our tailings facility at this stage, too, which is also a relatively large civil engineering undertaking.

As at our other operations, the quest for replacement continues at Kibali. And improved modeling has highlighted an underground opportunity in the up plunge of the 3,000 lode and as well as the further pushback in the KCD pit and resource addition possibilities on the 5,000 and 9,000 lode. And now we're really focused, too, on our new lode, the 12,000 lode, which we pointed to last quarter. We've done some additional early-stage drilling. We've intersected it to the (narrow) points. And the big thing now is to capture that in our ongoing underground definition drilling. We also have a new pushback, too, in the KCD pit. So a lot of sort of organic expansion. And just in the KCD upside on the resource side, we can point to about two years of additional reserves coming out. And I'll put -- I'll say this because you'll remember in 2016, we took a lot of ounces at reserve as we transitioned from a geostatistical estimate of reserves to a geologically modeled reserve model with hard boundaries. And we did point out that we will be putting most of that back as we progress our modeling.

This is the KZ structure, which is the host to all the main developments along the structure as the mud -- as the discovery effectively and the delineation of some -- as you see, the black line joining the blue line on the south and you've got 2 little stars annotated and Zambula and Zakitoko. Those are new targets producing -- which have rarely been the focus of our exploration team in the last 4 or five months. And we've got -- it's about a 7-kilometer strike with up to 8-plus grams a tonne in (these grade) samples. We've got a lot of work to do. But it really effectively has doubled our KZ strike.

And just a quick look at the Kalimva-Ikamva targets, as we show here. As I pointed out, 500,000 ounces -- I mean, 400,000 ounces of resource potential at 2 grams a tonne thereabouts, 4:1 strip ratio. This is within $1,000 per ounce pit. And so you can see the basic estimates. And we're now on the drill-out stage to put that into our mine plan.

Then further afield outside the joint venture, our big focus being the Ngayu joint ventures in the Ngayu belt, 2 big focuses, one around the intrusion, as you can see there, the Anguluku sort of occurrence; and then Imva, which is really the big focus. It's a suite of fairly significant results out of our stream sediment sampling program and where -- have just accessed that point. It's very remote.

So targeting, it has multimillion ounce big targets because it's in a very remote part of that part of the DRC.

I've always ended up with just a reminder of Randgold's commitment to creating value for all its stakeholders. And this extends to improving the quality of life and its host communities, not only during the life of the mines but looking beyond that, how do we convert some of the economic value of our orebodies into sustainable economic legacies for the future? And so -- and our big focus is agribusiness because it's the best sustainable business you can do in any emerging country.

And on top of that, our investment in education. People always talk about gender equality. But you can't actually force gender equality if you don't have that sort of equality starting at junior school. And again, we've been able to demonstrate that our influence of building schools and educating teachers and attracting teachers has changed the ratio, the gender ratio in our school-going children from pretty much 80-20 to 50-50. And at the same time, we're very proud of the fact that our pass rates in all our regions are substantially above the national average. Randgold has a direct influence on about -- on educating 25,000 children a year in West Africa and just on 100,000 children in the DRC through our education initiatives. And it's worth noting, too, that over this last quarter, we funded an initiative that trained 164 teachers to bring -- and particularly in the DRC. DRC people are very proud and committed to educating their children. And we find it very easy to work with civil society to ensure the access for people to train and uplift themselves as well as school (trailing).

And it's also interesting we talked about economic impact. On all our areas now, over our social programs, all of them -- in all different mining areas across Africa, we've built nursery schools. And that's a very critical measure of the activity -- economic activity of the community, where we're seeing more and more women playing a more active role in the economy and, therefore, a requirement for children to be cared. And of course, the next phase is not only you care about them but to expose them to some sort of education at an early stage, which is something we're very proud of.

I think in finishing off, I'd just like to point to a few facts. And that is, as I often say, we do not manage our business from quarter-to-quarter but for the long term. And it's particularly important to note that at a time when the industry asset space is deteriorating, Randgold continues to replace its reserves and to preserve their quality, which is important, as you can see on this graph. And of course,

I'll end as usual, with an update of our 5-year plan which shows sustainably profitability. We are sustainably profitable at $1,000 gold price for 10 years. But at the same time, we remain fully committed, as our Chairman pointed out in the introduction to the pursuit of real value as opposed to investing in optionality or size. And this is something that's been very close to our hearts. It's the big driver underpinned behind our increased dividend policy. We paid an increasing dividend for the last 12 consecutive years. And as you pointed out, every quarter is not perfect and the one good thing about a challenging quarter like this is that next quarter's going to be better. I often say to our team.

But really, I also -- people often comment about Randgold, on it being a one-man show. I think slowly you see that we are able to manage these challenges on multiple fronts. And this is because we are really -- do boast a highly competent and motivated team. And our commitment to continue to be able to do this is genuinely there. And I've got no doubt that we'll drag ourselves back to our guidance as we have promised you.

Questions And Answers

Alain Gabriel, Equity Analyst

Mark, this is Alain Gabriel, Morgan Stanley. Two questions from my side. If I look at your cash flow statement, you seem to have paid a fairly pretty chunky dividend from Kibali. Is that more a reflection of your confidence in the operation? Or is it more your worries around keeping cash in the DRC ahead of the discussion on the Mining Code?

Dennis Mark Bristow, CEO

Yes. We paid $11 million. Graham, you want to just add...

Graham Patrick Shuttleworth, Financial Director & CFO

$11 million (inaudible)

Dennis Mark Bristow, CEO

So $11 million. So that's for 45%.

Alain Gabriel, Equity Analyst

Yes. And is that more a reflection of your confidence in the future of the operation in the next few quarters? Or is it more your worries around keeping cash in the DRC?

Dennis Mark Bristow, CEO

We make profits. And we pay dividends. We don't sit on money. So everyone benefits when you pay dividends. And in all our operations, as you know, I mean, Loulo has been dividend -- I mean, Tongon has been a dividend-paying company for the last couple of years. It paid big dividends. And Kibali's at the end of its capital program. So you would expect it to start paying dividends. And we had to take quite a few years to get just the investment back in Kibali. And so that's the reason is, really, the capital coming off. And the business is performing.

Alain Gabriel, Equity Analyst

And the second question is on the Mining Codes in Mali and the Senegal. I think there's been a few press articles in the past few months quoting some officials expressing wishes to change the Mining Codes there. What's your view on the potential changes in both Mali and the Senegal?

Dennis Mark Bristow, CEO

So Senegal is done. They really changed it, the code. It's -- the investments we've got are grandfathered, just like everywhere else in West Africa. Then the Mali -- there was that article from Reuters. The minister will point out to anyone who wants to know that he was misquoted. But I can confirm that we have been working with the government, in general, because there are 3 different Mining Codes in Mali. They're all very aggressive. They're all on a take basis, higher than Burkina, Senegal or CÃ´te d'Ivoire. But also, they lead to lots of additional administrative opportunity to collect taxes by interpretation. And so we've -- and I'm a big supporter of that has been working and suggesting to the minister we should -- because they are -- the Malians have been driven by the IMF, looking for a new revised code. And I'm saying, "Let's take all the codes and put them in one. And get something that everyone understands, simplified. And we can all agree what it's going to harvest." And so we are -- and that's where the statement comes from, actually, was that basis. And so we -- and again, every investor in Mali. And there's are some very new investments, as you know, in Mali, are have -- are protected. And it's embedded protection. I mean, Randgold operates under the 1991 code and -- but there's some things that are on hold. You're not going to get anywhere. So we're always engaged in the ways to do benefit. And the new modern outlook is the put slidings because they couldn't operate. But with the sliding scale, they would stay aloft. And they would continue to pay royalties and employ people. And at the same time, in a high copper price or gold price or diamond price, the state gets the biggest take. And so again, we've done that in CÃ´te d'Ivoire, in the new code that we revised three years ago. We've done that in Senegal with the new code. Mali is a solid 6%. But again, it makes sense to be able to accommodate. And also, upgrading environmental conditions and those things are important. So we are mindful that -- I think the big challenge here is the fallout of the Addis Ababa meeting and the IMF-World Bank meeting where the funders sort of forced the resolution about countries being able to apply their mines, to closing their own budget shortfalls. And I think the unintended consequence of that -- and the IMF are renowned to be fairly shortsighted in their engagement with the countries -- is that there's been this big driver. And if you see what Africa's -- how Africa's emerged since the 1990s, post the end of the Cold War, it's made huge progress, including the DRC since 2000. But there's been just recently this drive. And it's not the initiative of the governments necessarily but a demand and encouragement, inverted commerce from some of the institutions that support the economies. And the result of that is you run the risk of stalling the infrastructural development of sub-Saharan Africa. And you've got to look at this and look at it in the context of global economy and the right of everyone to participate. And just like everyone says to the mining industry, people have the benefit from you. So if you look at the whole globe, it's important that we take time out and say, "How do we continue to develop Africa?" And otherwise, we end up with crises, with poverty-driven crises, whether it's fundamentalism or illegal migration or conflict and that sort of thing. And I'm a big supporter of the fact that -- if you draw a line, Dakar to Dar es Salaam, it's the most exciting belt in the whole world as far as economic potential. It's got unlimited amounts of power, water power potential. Its agricultural potential is -- and it's got, by 2025, it'll have more young people than the rest of the world put together. So if you don't pay attention in investing in infrastructure and encourage it. And the mining industry is the lead in any economic valuation, second to agriculture. And this belt is underdeveloped infrastructurally, underdeveloped on an agricultural basis, underdeveloped on accessing its natural resource endowment. So -- and over endowed with people. But they're all very motivated. So I think there's opportunity for that. And I mean -- and I think that's -- isn't that something that -- and we can see it does do it. And of course, there's always going to be critics of this. But right now, when you look at the DRC and its evolution so far, notwithstanding all these challenges, the reason that's happened is the mining industry. There's nobody else invest -- has invested the sort of money the mining -- and/or employed people. So it's a good debate. And I am mindful of the fact that you're going to have these roadblocks, speed humps, whatever you -- a bit of off-piste every now and then. But at the end of the day, you're not going to stop the evolution and progression of the sub-Saharan region. And we, as Randgold, intend to continue to participate in that as very committed partners.

Tyler Anson Broda, Director, Global Mining Research

Mark, Tyler Broda from RBC. Just 2 questions for my side. The first one is just around the Loulo and Yalea underground. Obviously, the development rates were affected by the one-off this quarter. But in your mind -- they've fallen a little bit over the last few quarters. What is the sort of optimal level of development there at the mine at this current stage of the evolution? Then the secondly, if I may, just in terms of the DRC, assuming that the Mining Code goes through the way it has been proposed and has started to be applied that way, is there -- have you done any calculations in terms of the potential impact on cash flow? Then, has gold been mentioned at all as being potentially a strategic mineral?

Dennis Mark Bristow, CEO

So on the development side, you would've -- I know you're still pop in and out of covering Randgold. But if you had to be in attendance in all the quarterlies, you would have noticed that we are overdeveloped in Loulo and Yalea. So we've been -- we've guided the market that we're going to manage that development. Right now, the development is such because of the balance, grade balance. So you want to be more developed because it gives you flexibility. And again, we've been able to manage our situation in this quarter because of the extra-developed ore reserve. But at the same time, we mine about 3 million tonnes a year combined. And we've got -- am I right here, Graham? About 3 million tonnes a year, on the 2 sections. And we've got about three years of development to deliver developed ore. So we feel that we can think about six months off because it's working capital. And we're mindful of the fact of how we manage working capital. So that's really what you see at the moment in the development. It's a real observation. And it's per design. Yalea, you'll see we pushed the development a bit more this quarter because we've got to get through the faults, the northern -- the southern faults into the next high-grade patch. And so that drives our development as we push out the haulage to access the next extension of the high-grade area on the other side of the fault. On the Mining Code, I think there's a lot of misunderstanding of the Mining Code. The Mining Code, as a code that's been presented in 2018, is an edited version of the 2002 code. So -- and we are fully engaged as an industry, not just the big 7. We represent the industry in working with all the stakeholders including civil society on the regulations, which are law, to make it applicable and effective. And we've worked -- and we are represented on all the subcommittees and all the different sort of sections in the code, environment, fiscal, legal, et cetera. And we made very good progress on that. And unlike what Bloomberg says, the first draft came out a week Friday ago and -- but that's the first draft. And we've -- the sessions and the commissions of the committees

(technical difficulty)

to see the President about and that we've been very vocal on. And the first one is the stability clause, which is embedded

(technical difficulty)

And at the same time, it's embedded in the Constitution, the protection of investors, investments. So we pointed that out. Everyone understands it. There's a -- the challenge is how do you reverse or affect it. And it's going to take some changes or some really focused legal sort of process. So you got to tend to that. And included in that is the windfall tax, of which you know, there are very few examples of any of a windfall tax being affected. And the strategic mineral definition again makes no sense to give the whole focus of the global legalities is to not allow individual government officials to make a decree but that's it's a properly considered decision. And so that's been our point of issue. And the president when we met him is very clear and that he instructed the government to find a solution for that. So we can address those, we have a code that everyone can work with. And we've indicated that we want this stability because -- I'll just give you an example. On what basis -- so the stability was 10 years on -- and it's very clear, Section 276. One day, I think Bloomberg might publish that section, that article. But the article is very clear. When that code is changed and approved by Parliament, which it has been, then it's triggered that stability for 10 years. In the new code, the revised code, there's another 5-year stability embedded in that code. So if no one's going to respect the first stability of 10 years, what value has the 5% (sic) (5-year) stability got? And that's the question. And I think

(technical difficulty)

in Congo, that debate has now engaged. At the same time, as I pointed out earlier, it's not our business to have a standup fight with the government. And that's why you've seen the industry reluctant to get into a public disagreement. We are -- we have all the stakeholders around the table including civil society. And we are engaged. But at the same time, we've also looked to the code and said, our proposal of a sliding scale royalty is a better way to affect the windfall inverted commerce participation. And in fact, if you look at what we've proposed, the immediate impact of that proposal would be an increased receipt for the treasury, which the current Mining Code doesn't do. So that's really the framework of our engagement. On the impact of Kibali, there's very little impact right now because, remember, we are not using this debate on the Mining Code to try and garner individual benefits or solve disputes that an investor might have his partner like the (Jack, I mean, saga down in, contained on that). We have serious investors representing more than $15 billion of long-term investment in this country, looking to the future of the Congo and our ability to reinvest. And certainly, I can speak on behalf of Randgold on that point. So right now, the impact is relatively minor. So $5 million to $10 million, more like the lower end. And at the same time, embedded in the new code is Section -- Article 220 which provides special benefits for remote investments, of which Kibali meets all the criteria. They call it landlocked but right away in the middle of the jungle. And so there's benefits in this. So it's not all bad. At the same time, the point is we approved, the board's approved the development of Kibali when gold was $1,630 plus. So if you look at the current conditions of the windfall tax, it would trigger around north of $2,000. But that's not the point because what's the cost going to be if you get to that point? So there's all that. And a lot of times, people don't think through those things. And so we feel that, ultimately, the one thing for sure is DRC would not continue in an environment where there is no investment. So I've...

Alain Gabriel, Equity Analyst

Yes. It's actually -- is this process now completely finished in terms of...

Dennis Mark Bristow, CEO

No. It's in progress. So we signed up for all the stakeholders, including -- remember, including the main official unions because involved in some of these industrial actions was sort of wildcat groups. So we had to get everyone, corral them all and then sit down. And we agreed on the rules of the game and then we've got them. And we're

(technical difficulty)

outside the government, in the country. We're the only

(technical difficulty)

it's a very important taxpayer. And so in any negotiation, the final driver of a negotiation is do you win or lose. And I'm sure we'll come to an amicable solution.

Alain Gabriel, Equity Analyst

Do you have a specific time line on when...

Dennis Mark Bristow, CEO

two months.

Alain Gabriel, Equity Analyst

two months. Okay. Then second question just to follow up on DRC Mining Code without overstressing the situation. But there's a couple of components quite draconian in terms of full repatriation of cash in the DRC bank accounts, et cetera. I don't know if those...

Dennis Mark Bristow, CEO

No. I mean, it's the -- again, those are issues that we are discussing because, as you've just heard the question, the dividend question, we dividend at free cash. So it doesn't matter. And so if you read the detail, the fine print, is that you can keep a certain amount of your revenue offshore during your paydown of your capital. Then at the point where you are completely paid, you've got to repatriate it. But that's just -- and so the debate is what's the withholding tax to be able to pay it out. It doesn't trap the money. So there's no intention of trapping money. There's a right to dividend out your profits. It's a (really accepted) right. Because, I mean, otherwise, why would one invest in that country?

Alain Gabriel, Equity Analyst

But once you've repaid the capital, there could be a withholding of dividend distribution tax?

Dennis Mark Bristow, CEO

Yes. There is withholding tax, Graham, at the moment?

Graham Patrick Shuttleworth, Financial Director & CFO

Yes. There is.

Dennis Mark Bristow, CEO

So that's what we are working with. And again, withholding tax, we're not trying to duck. We can't duck it. We're not trying to. What we're trying to do is like bankers, as you all well know, are very good at scraping a bit off every movement, financial movement. And it's the FX cost where none of us benefit, not the government or the investors. And so the withholding tax gets paid even if you have an offshore account and you pay out the dividend. And some of it flows back to the government and others, others flow to our shareholders. So the gristle in that is the FX costs of moving money around the world and transferring it into different currencies.

Alain Gabriel, Equity Analyst

Then final one, very quick one on Massawa. Any change in the approval of time line expectation?

Dennis Mark Bristow, CEO

No. I think we are very committed to progressing that. We've got some few different ideas suddenly coming out because the positive surprise in the detailed case work in Massawa is the large part of the Massawa resource is now free-milling. It's freely leachable even though it's got substantial gold -- free gold in it. And also, the trade-off between bioleaching pucks and selling the concentrate so that would change the -- quite substantially the capital profile of the operation. So we are -- we're right at that stage of really sweating and looking at the different options in this asset. The one thing for sure, it's an asset that's highly valuable. We want to get it to our investment criteria. At the same time, it's still valuable. So that's what we will continue doing. And I think like you all of -- again, some of the gray hair around this room will remember, anytime we brought an asset into production, we really wrestled with it, whether it was even Morila. And we worry about the bankability of our investments. And we pay attention. So our priority is to get our board to approve a well-thought-through defendable investment rather than meet a promise on the production day.

Grant Sporre, Head of European Metals and Mining Research

Grant Sporre from Macquarie. Two questions from my side. Just firstly on the dividend, just to clarify, your dividend

(technical difficulty)

second one

(technical difficulty)

Dennis Mark Bristow, CEO

And it's -- The condition, as Graham often says, because he likes to keep lots of money. Remember, I'm a shareholder, I like the dividends.

(technical difficulty)

And the rest, we'll pay out. So anything in excess of our short-term requirements, we'll pay out to above (500).

Grant Sporre, Head of European Metals and Mining Research

I think Graham's a shareholder as well. But...

Dennis Mark Bristow, CEO

But not as big as me.

Grant Sporre, Head of European Metals and Mining Research

Fair enough.

(technical difficulty)

have to worry about sort of quarterly performance. Could you give us any guidance as to sort of the grade profile for Loulo-Gounkoto for the rest of the year?

Dennis Mark Bristow, CEO

Graham's got a good trick here. He will take you through it. I think, just because it's something that everyone will remember. And so we won't have any misguided forecasts through the year. Graham?

Graham Patrick Shuttleworth, Financial Director & CFO

(technical difficulty)

It's a big step up in this second half. And at Loulo, it's more of a gradual increase throughout the course of the year. So that's really the guidance, which is in line with the guidance that we gave at the start of the year, which is that we expected production to increase throughout the year. And that driver is coming not just from Loulo-Gounkoto but also from Kibali because remember, at Kibali, as we ramp up the production from the underground. So the grades increase. So you've got it naturally occurring throughout the operation. And as I say, just to reiterate, that's the reason why we gave the guidance at the start of the year.

Dennis Mark Bristow, CEO

And the (2 80) in Tongon, if you take out the (55) of this quarter and then divide it by 3, because remember Tongon is a low moderate-grade orebody with very little grade flexibility. You don't want to exploit the grade. You've got to worry about efficiencies and delivery to recover that program. And we've got a little bit -- we're comfortable we can push a little bit on the throughput to barely get there.

Jatinder Goel, VP and Analyst

Jatinder Goel from Citi. A question on your Three in Five or related to that. One of the media articles, I think, quoted you saying potentially inorganic options as well. Is that an ongoing process in parallel to finding Three in Five organically? Or is that a plan B be with the time line that if you don't hit your 3 targets, then you look at more than organic? And will that be within Africa? Or would you look outside as well?

Dennis Mark Bristow, CEO

It's a parallel process. We've very clearly signaled that to the market some time ago. We always look -- project quality overrides jurisdiction. Right now, most of you -- unless, you look at the sub-Saharan region, there are very few defined targets that are in our league. Anyway, we are fully committed to continuing to explore in the areas that we explore because there's no better way to create real value. I mean, the best way is at Gounkoto, where you've already spent the capital. The second best way is to find your own mega deposit and build it like Morila. And at the same time, I think we've also -- very clear about our value and where our competitive advantage sits. And that's our management skills and our systems, our management systems. And if you look at us, we are able to mine in DRC, in the remote part of DRC. And in Mali. And those 2 assets are in such different jurisdictions, equally challenged. And we do it well. And so because we have no head office, because we -- our model is we invest in executives that can run the businesses on site on a day-to-day basis, that's why we're able to deal with multiple challenges like we have. And so to take that -- so that's scalable anyway. And we are -- we've always did 6 or 7 assets. And so, we're short on 6 or 7 assets. We've got this -- I definitely don't want to be running a company at a $90 share price. Tyler, you should pay attention.

(technical difficulty)

Jatinder Goel, VP and Analyst

Just a couple of follow-ups on that. Even in (Emendale), will the same criteria, $1,000, 3 million ounces, is that (20% holds)?

Dennis Mark Bristow, CEO

Exactly, at this stage, yes. Remember, our long-term goal -- our focus is dependent on the industry cost break base. So we look at it like that rather than at...

Jatinder Goel, VP and Analyst

And is it just an asset-level transaction which you would be looking at or at our corporate level...

Dennis Mark Bristow, CEO

Anything. Any style, anything as long as meets our criteria. Ma'am?

Xiaofei Du, Research Analyst

It's Olivia Du from Bank of America Merrill Lynch. I have 2 questions. The first one is a follow-up on DRC issue. Just hypothetically, in a worst-case scenario, the code just doesn't go the way that everyone wanted it to. So do you have a time line on when will you take a decision on capital allocation, like when would you potentially put down your investment away?

Dennis Mark Bristow, CEO

So one thing I will clear about, this is not a public argument. We're engaged in a discussion. And anything -- so that's the one point. Second one is one of the negative impacts of an overaggressive legislation is the risk of forcing the industry to higher grade to be able to keep giving returns to its investors. And that's not a healthy situation because what it does is it depletes a national asset and deprive us of future generations from participating in an industry. And that's always been the case in DRC. Everyone talks about its mineral endowment and that. But it's never been able to deliver anything because it always tends to store on its ability to deliver that and attract continued long-term capital allocation. So I think the point is that we, as you know, we have been in Africa since the beginning. And we've been through coup d'Ã©tats, wars. We've done the whole nine yards. At the end of the day, it's an emerging market that comes with challenges. But ultimately, the logic of attracting investments and delivering fair and equitable benefits to all stakeholders is the crux of our business. And we're comfortable that, that will prevail. To throw a hissy fit over a point like this, you run the risk of cutting your nose off to spite your own face. So as much as people would like to have that sort of headline, we're not going to give anyone the luxury of writing it. Second one?

Xiaofei Du, Research Analyst

So does that mean that it's unlikely that you will leave Africa?

Dennis Mark Bristow, CEO

I think I've answered your question.

Xiaofei Du, Research Analyst

So the second question is I think I understand that there are a few expected development in the First Quarter. And it seems to have become a pattern at Randgold. Results tends to skew more towards the second half of the year. So is there any way that we should be looking at the seasonality? So I mean, the shares down quite a bit today. So is there any way that we can more reasonably expect the paths?

Dennis Mark Bristow, CEO

I don't want to -- I never really got into the share debates. But when you're building mines, you always -- you ramp up. And so the large driver of our ramp-up this year, which we've guided last year. So this is not a surprise, is we've got 2 big ramp-ups. The Gounkoto pushback which is impacted because it's a big investment. And it's a pushback of a big pit, at the same time, mining it. So you restrict your flexibility because you focused on trying to keep the pushback going. And you also want to take ore out of it. Then of course, a new mine ramping up where we're moving from just over 600,000 ounces to 750,000 ounces this year in Kibali. And very clearly, it's a capital or post-development ramp-up. Now that's sequencing and improvement. And if you look at Kibali, it's ramping up since last year, January. And so that's not a seasonal thing. That's an event. Then our guidance next year will be above the 630,000 -- I mean, the 730,000 ounces. It's a big mine. So I think that's the way I'd answer it. I think, in addition to that as you know, I've always said to anyone who wants to buy Randgold stock is we work in Africa. There's a cyclicality to the commodity price and also our stock price because Africa gives you surprises. You wake up one day and something's happened that you had no intention would. But what we've demonstrated is we have the capacity and the skill to manage those surprises. And so we come back up. So you can either buy our stock at the top of its cycle or somewhere during one of these ripples that we get in our stock price. And today's an example where there's no material reason. We haven't impacted anything on our models, NPVs. We haven't -- there's no embedded risk in our business other than the normal risk of operating where we do. And we've proved over that time that we can manage that. So that's what I'd say. And I mean, one -- just a point of technicality is, this morning, all the trades that led that stock price down was thin trades on the back of electronic automatic trading. None of our big shareholders have dumped the whole lot of stock in the market. So we'll work it through and continue as we always do.

Alan Henri Spence, Equity Analyst

Alan Spence from Jefferies. Just one for my side. The Gara striker belt project, can you just talk a bit more about that? Is at a cost efficiency or more of a benefit from the volume side?

Dennis Mark Bristow, CEO

The Gara?

Alan Henri Spence, Equity Analyst

Gara striker belt project.

Dennis Mark Bristow, CEO

Okay. So what it is, is as we go down in the depths, we've got -- we truck to a point, a crusher point and go then we feed onto a belt and take it up to surface. And as you extend the mine, the belt's loop becomes less efficient. And some of these belts like the Gara one you're talking about has been there since we started. And so we -- what we did is we developed another raise and repositioned the belt and took out some of the transfer points and just made it more efficient. So it's an efficiency thing.

You're going to ask your question? All right. Thanks very much, ladies and gentlemen, for your attention. And again, we invite you outside. And we've got a couple of our team members, key players here. We've -- as usual, Martin, who's our Legal Counsel. We've got Chiaka Berthe, who's our Chief Operating Officer from West Africa; John Steele, who's Head of Capital Projects; and Joel here, our Group Exploration head. So -- and then, of course, Lois and Graham. So grab them in the back there. And you can add -- continue with your questions.