

Abstract

The comparable market valuation is an internationally accepted valuation method frequently used to value mineral assets. Valuation methods are generally associated with uncertainty. The uncertainty is associated with values of the input parameters used and assumptions made in the valuation process. Accordingly, national mining valuation codes were designed to provide guidance to the valuation process. These codes are principles-based and not prescriptive, leaving valuers (valuers) with a degree of uncertainty. The purpose of this research study was therefore, to establish a best practice guideline when using the comparable market valuation method to value a mineral project. The guideline is intended to partly reduce variation in approach by different valuers and so reduce the uncertainty in the valuation process.

According to the APB (2013), when a transaction on a property is a ‘competitive substitute’ it is acceptable to be classified as comparable. Most transactions used in mineral property valuations will not be classified as being competitive substitutes, further substantiating the importance of determining a best practice guideline for the market comparable valuation method.

Five steps were introduced, after investigating similarities between valuations of real estate and mineral properties, that form the best practice guideline for conducting the comparable market valuation. These five steps are:

- Step 1: Construct a database to be used in valuation;
- Step 2: Adjust values to real terms;
- Step 3: Distribute unit values per Mineral Resource category;
- Step 4: Perform sanity checks; and
- Step 5: Identify and apply sensible adjustments.

By building an extensive valuation transactions database, based on gold deposit case study transactions over a period of 12 years (2006 to 2017 inclusive), and

following each proposed step, the industry average unit values per resource category were determined to be:

- Inferred: 2.3 USD/oz;
- Indicated: 13.3 USD/oz; and
- Measured: 21.7 USD/oz.

The best practice guideline developed in this research study was applied to a listed gold mining company case study. The non-diversified, South African listed gold mining company used for the case study was Pan African Resources (PAR), which has several operating gold mines as well as potential projects with compliant Mineral Resource statements containing 33.3 Moz of gold. The industry average unit values per resource category were applied to the gold case study after making project-specific adjustments to determine the project resource value of USD269.4 million. This equates to a project average unit value of 8.1 USD/oz, which is the probable value that a willing buyer would potentially expect to pay for the purchase of the Mineral Resource.

The estimated market value of an asset determines the validity of any valuation. To justify the estimated value based on the comparable market valuation method, the estimated resource value was compared to the enterprise value of the listed gold mining company of USD242.7 million at the time of the valuation. This resulted in a variance of 11%. Given the fact that the share price fluctuated by approximately 15% to 17% higher or lower, preceding and succeeding the date of the valuation, an 11% variance can be deemed as acceptable. The value based on the comparable market valuation method following the proposed guideline using gold deposit case study transactions can, thus, be deemed as reliable and justifiable.

It is recommended that mineral property valuers make use of the guideline when conducting the comparable market valuation. It is also recommended that the national mining valuation codes, which are accepted globally, can consider presenting valuers with a similar guideline to ensure transparency among valuers.