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Harmony Gold

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Harmony Gold - reducing debt and increasing production

South African gold producer Harmony Gold has been through a tough time in recent years. Production issues, power supply concerns, and high inflation in South Africa have all created their challenges for the company.

Harmony had been on a 15 year acquisition binge until 2007, growing from a one mine operation to the ninth largest gold producer in the world. The decade and a half expansion left the company with indigestion however, and a bloated balance sheet packed full of debt. Enter Graham Briggs, who moved from Managing Director of Harmony's Australia subsidiary to CEO of the Group. With the change of CEO came a change of tact. Over were the days of acquisitions, instead Graham embarked on a company rationalisation plan, and set about a series of asset disposals to pay down group debt.

Less than two years on, and Harmony is starting to look like a leaner, meaner gold producer. Virtually all of Harmony's assets outside of South Africa have been jettisoned, except for a 50% joint-venture with Newcrest Mining at the Hidden Valley gold mine in Papua New Guinea which moves into production this year. The Hidden Valley mine will process 4.2Mt of ore a year from the two open pits, producing 255,000 ounces of gold and 4 million ounces of silver per annum.

The joint venture model with Newcrest Mining will be the way forward for Harmony in the future too, says Graham, who we spoke to this week from his offices in Johannesburg. Rather than attempting to fund all of its projects alone, the company is keen to spread the risk and bring in partners where it makes sense to do so. This will help the company free up capital while building production and cash reserves.

Graham was none too keen on Harmony's debt pile either, and has focused on early repayments to improve the balance sheet. Only last week Harmony placed shares equal to 2.6% of the share capital with institutional investors, which raised ZAR979 million. The proceeds were used to pay down part of a ZAR2 billion debt facility with Nedbank. An additional US$169 million is due to arrive in April 2009 as the final instalment on the disposal of its Randfontein assets, to Pamodzi Resources Fund. Combined with projected free cash flow of ZAR3.3 billion for 2009, Harmony looks on track to meet its stated objective of zero net debt by June 2009.

Price: US$1.615

Market Cap: US$807.91M

1 Year Share Price Graph

Share Information

Code:		HMY
Listing:		NYSE, LSE, Euronext Paris
52 week	**High**	**Low**
	2.53p	**1.52p**
Sector:		**General Mining - Gold**
Website:		**www.harmony.co.za**

Company Synopsis:
Harmony Gold Mining Company Limited is a gold-mining and exploration company. The Company has operations in South Africa and Papua New Guinea. In South Africa, the Company's operations are focused on the Witwatersrand Basin and the Kraaipan Greenstone Belt.

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This combination of factors has lead Macquarie Bank to raise its target price on Harmony to ZAR135 per share, arguing that the company is currently on 0.72 x P/NPV compared to a long term average of 1.6.
What about production? Macquarie is anticipating total group production of 1.64 million ounces in 2009 at a cash cost per ounce US$526, climbing to just over 2 million ounces in 2010 at $538 per ounce. It has to be said that the substantial boost in gold production is dependent on the company successfully moving five developments into production (three are extensions of existing mines), which clearly has its risks. Harmony should also benefit from downward pressure on cost inputs, like steel and diesel, though Eskom's power supply issues has meant higher

electricity bills for South Africa's industry. Favourable movements in the Rand versus the Dollar have also resulted in a higher gold price in Rand, which is good news for South Africa based gold producers.

Harmony Gold may even be in a position to start paying a dividend in 2010, if the gold price holds up.
Clearly with a gold producer like Harmony, the share price is heavily influenced by the price of gold in US dollars - which doesn't actually translate particularly well to non-US based gold producers like Harmony.

Nonetheless, investors who are bullish on the price of gold in 2009, may find Harmony a tempting proposition as it moves towards a zero net debt position and continues to grow its production profile and generate substantial free cash flow. Despite wider issues with the global economy, gold was one of the few asset classes to finish 2008 at similar levels to where it started. Many analysts are forecasting gold will continue to perform well against other investments as the ripple effects of the credit crunch continue to reverberate around the world. For many mid and top tier gold producers, the theme for 2009 is one of continued development of their production profile, and Harmony is no different.