Simulations allow Venmyn to take ZAR volatility into account

By Deborah Spicer

While many mineral asset valuators prefer to use a consensus forecast of the ZAR:USD price when undertaking valuations, Venmyn is increasingly using the spot price as the base of mineral asset valuations while using computer simulations to assess the sensitivity of a project to changes in the ZAR price.

Mathematician Iaan Myburgh explains that Venmyn puts a higher weight on the spot price of the Rand at the moment (rather than a consensus forecast) because of the volatility of the currency.

“It is difficult to make a long-term prediction on what the Rand price will be because the Rand is expected to be volatile and will continue to fluctuate within a given range,” he says.

However, the company uses computer simulations to determine how sensitive a given valuation is to changes in the price of the Rand.

“In many cases, the exchange rate is one of the most sensitive inputs in a mineral asset valuation,” says Myburgh.

“A small change in the exchange rate can have a significant influence on a project’s value,” he notes.

“The move up to 7.35 against the USD was due to the problems in North Africa,” comments independent advisory and transaction company Umkhulu Consulting’s Adam Phillips, noting that the Rand has strengthened to 6.90 since then.

“The moves up are quick and catch everyone out; the moves down are slow and painful,” Phillips says.

It is in order to capture the Rand’s volatility that simulations are important, notes Myburgh.

To find out more about Venmyn’s valuation methodologies, please contact Iaan Myburgh. To discuss movements in the exchange rate, please contact Adam Phillips at adam@umkhulu.com