EUREKA report

Golden targets
By Troy Schwensen

PORTFOLIO POINT: As it becomes cheaper for miners to buy than build, six stocks stand out as likely targets.

As production and exploration costs rise, it is becoming cheaper for the major gold producers to buy production ounces than investing in exploration and development. World gold production is declining so the race is on for the big miners to replace depleted reserves. They can do this in either of two ways:

- Exploration and development of their existing portfolio of projects, which, in this environment, is time-consuming and increasingly expensive.
- Buying or joint venturing into more advanced projects.

For a sense of the type of companies and projects that may be attractive takeover targets, it helps to take a detailed look at some of the key merger and acquisition activity over the past 24 months. Table 1 shows the price tag, the number of ounces of gold and the parties involved in the respective deals. Table 2 looks specifically at the projects and gives a clearer picture of some of the key characteristics they shared.

Table 1: Australian Merger and Project Acquisition Activity (Last 24 months)

Date	Buyer	Deal	Interest	Price ($USm)	Target /Vendor	Reserves (Moz)	Resource (Moz)
Apr-08	Newcrest	JV	50%	525	Harmony (PNG)	2.9	8.7
Apr-08	Lihir	TO	100%	1075	Equigold	2	2.8
Apr-08	Beadell	PP	100%	360	Newcrest/Lion	0.3	1
Oct-07	Northgate	TO	100%	270	Perseverance	1.1	3.7
May-07	Coeur D' Alene	TO	100%	1100	Bolnisi		4.7 *
Jan-07	Oxiana	TO	100%	190"	Agincourt	0.3	6.5
Oct-06	Lihir	TO	100%	332	Ballarat GF		1.4
Jul-06	Oceana Gold	TO	100%	215	Climax Mining	1.5	2.3

** Silver converted to gold equivalent at the ratio of 50 ounces to 1 in the resource.*
" Cost excludes Agincourt's interest in Nova Energy, which had a market capitalisation of $218 million at the time.

Table 2: Australian Merger and Acquisition Project Details (Last 24 months)								
Target /Vendor	**Major Project(s)**	**Location**	**Stage**	**Reserves (Moz)**	**Resource (Moz)**	**Production (oz) PA**	**Cash Cost /oz ($US)#**	**Mine Life**
Harmony (PNG)	Hidden Valley	PNG	Construction	2.9	5.7	250k -300k	224	14
	Wafi-Golpu	PNG	Advanced Exploration		3			
				2.9	**8.7**	**250k - 300k**		
Equigold	Mt Rawdon	Australia	Production	1.2	1.6	100k	330	10
	Bonikro (85%)	Ivory Coast	Construction	0.8	1.2	120k - 130k	250	7
				2	**2.8**	**220k - 230k**		
Newcrest/Lion	Cracow	Australia	Production	0.3	1	115k	310	3
Perseverance	Fosterville	Australia	Production	0.9	3.1	75k - 100k	615	8
	Stawell	Australia	Production	0.3	0.6	100k	450	3
				1.1	**3.7**	**175k - 200k**		
Bolnisi	Palmarejo	Mexico	Pre-Feasibility		4.7	320k*	185*	10
Agincourt	Wiluna	Australia	Production	0.3	1	110k	650	3
	Martabe (95%)	Indonesia	Pre-Feasibility		5.5	270k	165	7
				0.3	**6.5**	**380k**		
Balarat GF	Ballarat East	Australia	Construction		1.4	100k - 200k	300	20
Climax Mining	Didipio (92%)	Philippines	Bankable Feasibility	1.5	2.3	110k	-166	15
Average				**1**	**3.9**		**260**	

 # Cash cost is net of any byproduct credits unless stipulated.
** Silver converted to gold equivalent at the ratio of 50 ounces to 1 – resource, production and cash cost.*

Key projects share a handful of common characteristics. Target projects/companies possess:

- A potential to produce at least 150,000–200,000 ounces a year.
- A mine life of at least seven years.
- A large resource base with excellent potential to extend reserves.
- Low-cost operations, usually with production costs below $US300 an ounce.

These factors make it easier to narrow down a list of Australia's takeover candidates. Here are six:

Table 3: Newcrest Mining

Target	M Cap ($USm)	Key Projects	Location	Stage	Reserves (Moz)	Resource (Moz)	Production (koz) PA	Cash Cost /oz (US$)#	Mine Life
Newcrest	15,000	Telfer	Australia	Production	17	25	700k	500	20+
		Ridgeway	Australia	Production	0.9	1	300k	-215	3
		Cadia Hill	Australia	Production	3	5.5	250k	330	10
		Gosowong (82.5%)	Indonesia	Production	2	2.6	350k	225	6
		Ridgeway Deeps	Australia	Construction	1.8	3	180k	80	12
		Hidden Valley (50%)	PNG	Construction	2.9	5.7	250k -300k	224	14
		Cadia East	Australia	Exploration	1.8	21.4			
		Wafi-Golpu (50%)	PNG	Exploration		3			
Total					**29.4**	**67.2**			

Newcrest Mining is an obvious takeover target, considering its suite of quality, low-cost projects. With long-life, low-cost operations and plenty in the development pipeline, Newcrest is well positioned to take advantage of record metal prices going forward. The one factor that may take it a step closer to that elusive international bid is the recent elimination of its hedge book, restoring much better transparency to its earnings. A negative relates to ongoing problems at its Telfer mine in WA, which are pushing operational cash costs significantly above forecasts.

Table 4: Lihir									
Target	**M Cap ($USm)**	**Key Projects**	**Location**	**Stage**	**Reserves (Moz)**	**Resource (Moz)**	**Production (koz) PA**	**Cash Cost /oz (US$)#**	**Mine Life**
Lihir	6,700	Lihir Island	PNG	Production	23.6	40.5	700k	300	20+
		Ballarat East	Australia	Construction		1.5	200k	300	20
Total					**23.6**	**42**			

Lihir has often been dismissed as a potential takeover target because of its extensive PNG exposure (90% of its business). Over the past 24 months, Lihir has actively sought to diversify into other countries. The recent $US1 billion takeover offer of Equigold will introduce another Australian operation to complement its earlier Ballarat acquisition, as well as a quality, low-cost deposit on the Ivory Coast of west Africa. Lihir, like Newcrest, also eliminated a sizeable hedge book, enabling it to immediately participate in the current cycle of higher gold prices. In an inflationary environment of rising energy prices, Lihir is well positioned to manage its costs through their ability to generate geothermal power. Newcrest's recent $US500 million join venture with Harmony to go into PNG suggests a possible softening of PNG's perceived risk. With a market capitalisation of $US6.7 billion, Lihir would almost definitely be on the takeover menu.

Table 5: Sino Gold									
Target	**M Cap ($USm)**	**Key Projects**	**Location**	**Stage**	**Reserves (Moz)**	**Resource (Moz)**	**Production (koz) PA**	**Cash Cost /oz (US$)#**	**Mine Life**
Sino Gold	1,300	Jinfeng (82%)	China	Production	2.9	4.4	150k - 160k	370	12+
		White Mountain (95%)	China	Construction	0.8	1.1	70k	250	10+
		Beyinhar (95%)	China	Scoping	0.5	1			
		Nibao (70%)	China	Exploration		0.5			
Total					**4.1**	**7**			

Sino gold is in the enviable position of having a strong foothold in China, the world's fastest-growing gold-producing country. China is tipped to become the world's largest gold producer if it hasn't already managed to achieve this milestone. With little in the way of modern exploration carried out, China provides some of the most highly prospective exploration ground. The difficult job for foreign companies is building relationships to secure the necessary permitting and approvals once a workable deposit is found. Sino has recently followed the lead of Lihir and Newcrest by announcing it will raise funds to eliminate its hedge book. Major gold miner Goldfields will increase its stake to 19.9% in the placement, which makes Sino the obvious front runner in a possible future takeover.

Table 6: Andean Resources									
Target	**M Cap ($USm)**	**Key Projects**	**Location**	**Stage**	**Reserves (Moz)**	**Resource (Moz)**	**Production (koz) PA**	**Cash Cost /oz (US$)#**	**Mine Life**
Andean	640	Cerro Negro	Argentina	Explor./Feasibility		0.9			
		Eureka	Argentina	Explor./Feasibility		1.5			
Total						**2.4**			

Andean Resources is not a gold producer and has not yet completed a feasibility study to demonstrate the viability of its projects in Argentina. Exploration work to date indicates this is turning into a world-class deposit, with more than two million ounces of high-grade gold and 20 million plus ounces of silver, which will provide useful byproduct credits to lower the cost of production. The company, in a recent presentation, indicated that cash costs would more than likely come in at less than $US200 an ounce. Once the feasibility study process is completed, towards the end of 2008, and the majors can get a better handle on the economics of the project, things could potentially start to get interesting for Andean.

Table 7: Kingsgate Consolidated									
Target	**M Cap ($USm)**	**Key Projects**	**Location**	**Stage**	**Reserves (Moz)**	**Resource (Moz)**	**Production (koz) PA**	**Cash Cost /oz (US$)#**	**Mine Life**
Kingsgate	515	Chatree	Thailand	Permitting/Expand	1.7	4.8	80k - 300k	400	6+

Kingsgate's Chatree project in Thailand has experienced enormous success and community support over the past six years. The proposed expansion plans for Chatree North, however, have been delayed due to permitting issues arising from the temporary nature of the transitional government. These plans would see annual gold production increase to 300,000 ounces and cash costs improving from a higher rate of silver production. With the new Thai Government now in place, the company is optimistic that things are heading in the right direction. Once the permitting issues have been resolved, Kingsgate would definitely qualify as a takeover target, offering a strong balance sheet and unhedged production.

Table8: CGA Mining									
Target	**M Cap ($USm)**	**Key Projects**	**Location**	**Stage**	**Reserves (Moz)**	**Resource (Moz)**	**Production (koz) PA**	**Cash Cost /oz (US$)#**	**Mine Life**
CGA Mining	440	Masbate	Philippines	Construction	2	7.7	200k	300	8+

CGA Mining, formerly Central Asia Gold, has had a history of developing and selling projects abroad. After an unfortunate episode in the Kyrgyz Republic, where the Government refused to grant the necessary project approvals, CGA has bounced back with the recent acquisition of the Masbate project in the Philippines. In early 2007, CGA bought the project from the troubled Thistle Mining of South Africa. Having optimised a 2006 Bankable Feasibility Study, CGA contracted the experienced Leighton Holdings to build the mine, with construction now 45% complete. CGA has made very strong progress in such a short time and recently upgraded its resource figure by 62%. The Philippines location may put some majors off this one but, as we have seen recently, Xstrata has announced a takeover of copper/gold company Indophil, and Oceana Gold acquired Climax less than two years ago.

In the coming months, investors will be watching this sector very closely, and beyond this list of six targets there will almost certainly be surprises. Either way, with gold prices rising along with the cost of exploration and development, further consolidation in the gold sector seems inevitable.

Troy Schwensen is editor of The Global Speculator and a research analyst for GoldNerds.

Visit www.EurekaReport.com.au for a free trial.