



Gold & Precious Metals

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Sector M&A: Corporate activity and portfolio rationalization to continue

In the last four months three sizable M&A deals have breathed some life into the sector after a particularly quiet period in the last 2-3 years. The activity was led by the Barrick-Randgold merger (Sept/18) followed by the Pan American-Tahoe acquisition (Nov/18) and the recent Newmont-Goldcorp deal (Jan/19).

It is our view that sector consolidation will continue, both in terms of corporate activity and portfolio rationalization.

Among the senior/intermediate producers, we believe the following “value” names could potentially be vulnerable targets to further consolidation: Kinross, Yamana, Detour Gold, IAMGOLD and Torex Gold. Among the developers, for size, scale and resource quality, we consider Lundin Gold and Continental Gold as potential targets, noting the strategic interests of Newcrest and Newmont respectively.

On the asset front, the recent consolidation will likely lead to the ultimate divestment of non-core mines and projects. We know for sure that Newmont-Goldcorp plans on divesting \$1.5-\$2 bil of assets to optimally rightsize its portfolio but at the same time, management said they may take up to 12-36 months to come to divestment decisions.

This report highlights several mines/projects that may very well transact as a fallout of the recent round of corporate consolidation. Newmont has indicated in its marketing that Red Lake is non-core and that Porcupine (incl. Century), Éléonore, Coffee and Phoenix need further evaluation and are only considered “potentially” core. For Barrick, Lagunas Norte and the Kalgoorlie JV would be considered non-core, with Kalgoorlie confused by Newmont’s view that it could potentially be non-core for them as well. We view Pan American Silver as likely sellers of the Timmins mines (Timmins West and Bell Creek).

Given the generally modest to low level of financial liquidity in the sector, we believe the larger deals may prove challenging in the current gold price and equity valuation environment. The streamers could provide assistance where required.

Synopsis:

Recent M&A has breathed new life into the gold sector.

It is our view that sector consolidation will continue, both in terms of corporate activity and portfolio rationalization.

Corporate activity: We consider several value names as potential targets, incl. Kinross, Yamana, Detour, IAMGOLD and Torex Gold. Larger scale developers include Lundin Gold and Continental Gold.

Portfolio rationalization: This report highlights several mines/projects that may very well transact in the medium term, including Red Lake, Porcupine, Eleonore, Coffee, Phoenix, Lagunas Norte, Kalgoorlie, Massawa and the Timmins mines of Pan American Silver/Tahoe.

Given the generally modest to low level of financial liquidity in the sector, we believe the larger deals may prove challenging in the current gold price and equity valuation environment. The streamers could provide assistance where required.

Steven Butler (416) 943-6651
sbutler@gmpsecurities.com

Ingrid Rico (416) 941-0808
irico@gmpsecurities.com

Stephen Soock, P. Eng. (416) 941-0186
ssoock@gmpsecurities.com

Sector consolidation – Corporate M&A and asset sales

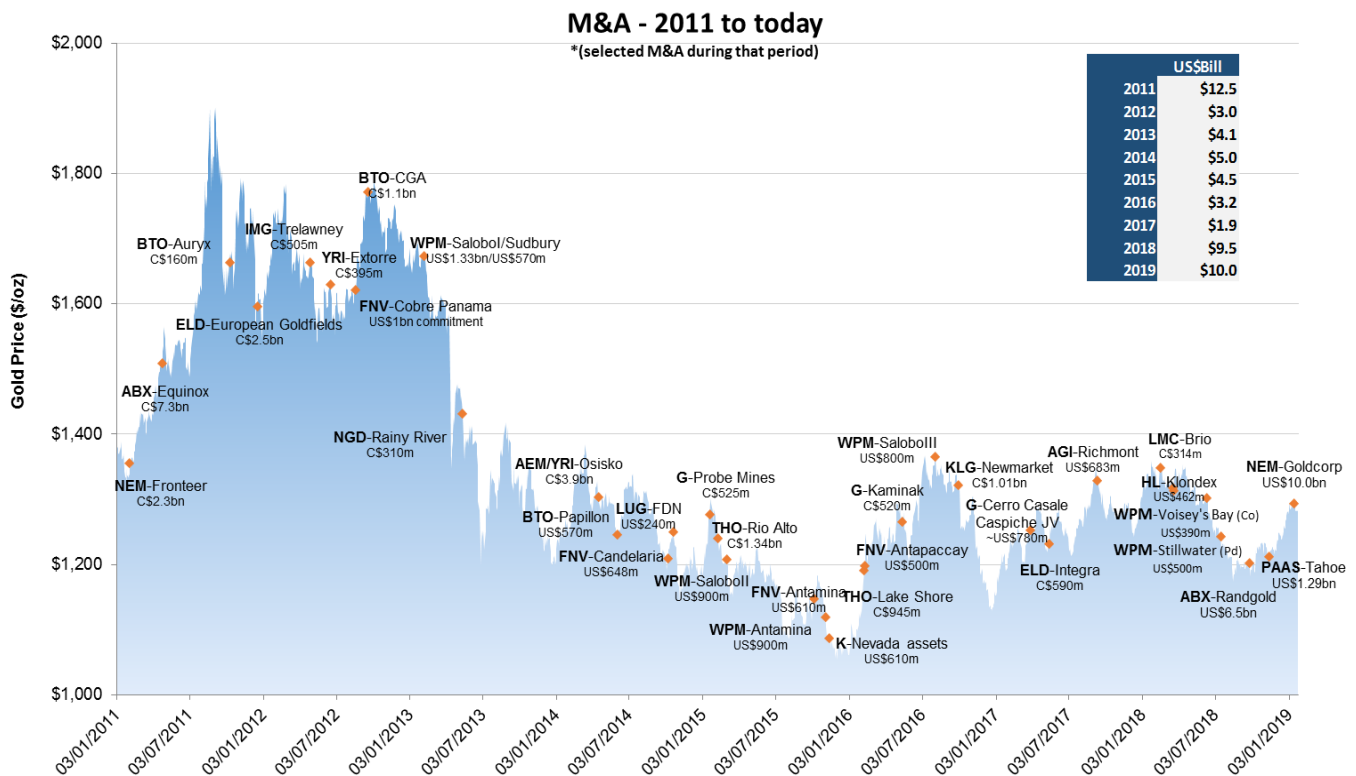
In the last four months we have seen some sizable M&A deals announced in the precious metals space starting with the Barrick-Randgold merger (Sept/18) followed by the Pan American-Tahoe acquisition (Nov/18) and the recent Newmont-Goldcorp deal (Jan/19).

It is our view that sector consolidation will continue, both in terms of corporate activity and asset rationalization.

Corporate M&A activity

After what feels like a long pause in the sector’s matchmaking, bottoming in 2017 as reflected in the M&A chart below (Figure 1 illustrates M&A deals since 2011), the Barrick-Randgold merger made way for two other sizable deals in our coverage universe.

Figure 1. Gold sector M&A activity (2011-present)



Source: Public disclosures, GMP Securities

Depressed valuations of the target companies was, in our view, the key catalyst for Pan American’s bid for Tahoe and Newmont’s offer to buy Goldcorp.

Based on this same theme, we believe that these senior/intermediate “value” names could potentially be vulnerable targets to further consolidation: Kinross, Yamana, Detour Gold, IAMGOLD and Torex Gold. Among the developers, for size, scale and resource quality, we consider Lundin Gold and Continental Gold as potential targets, noting the strategic interests of Newcrest and Newmont respectively.

Figure 2. Potential corporate M&A targets

	EV	Spot P/NAV	Production [koz]		AISC		FCF	
			2019e	2020e	2019e	2020e	2019e	2020e
K	\$4,861	0.81	2,317	2,404	\$942	\$934	-\$261	\$433
YRI	\$4,054	0.86	1,068	1,057	\$687	\$668	\$185	\$430
DGC	\$1,764	0.79	574	586	\$1,115	\$1,091	-\$77	-\$22
TXG	\$1,238	0.59	467	429	\$552	\$727	\$160	\$87
IMG	\$1,315	0.52	916	1,007	\$1,037	\$1,076	-\$336	-\$266
LUG	\$398	0.60	-	271	-	\$633	-\$311	\$185
CNL	\$215	0.21	-	252	-	\$544	-\$211	\$103

Source: GMP estimates

Portfolio rationalization may lead to asset sales – it's a buyer's market

On the asset front, consolidation will likely lead to the ultimate divestment of non-core mines and projects. Figure 3 tables a list of potential non-core assets that could be divested from the recent corporate M&A transactions.

Figure 3. Assets potentially available for sale

Owner	Asset	Location	Partner	NAV @ \$1,250/oz and \$3.10 Cu*	2019 Production [koz or Mlbs]
Newmont-Goldcorp	Eleonore (100%)	Quebec	-	\$950m*	400
	Red Lake (100%)	Ontario	-	\$150m	250
	Porcupine** (100%)	Ontario	-	\$525m	250
	Coffee (100%)	Yukon	-	\$350m	-
	Phoenix (100%)	Nevada	-	n/a	190
Barrick	Lagunas Norte (100%)	Peru	-	\$175m	190
	Kalgoorlie (50%)	Western Australia	Newmont (50%)	\$525m	260
	Massawa (100%)	Senegal	-	\$330m	-
	Copper Portfolio, incl:			\$2,400m	430
	Lumwana (100%)	Zambia	-	\$1,550m	265
	Jabal Sayid (50%)	Saudi Arabia	Ma'aden (50%)	\$225m	45
	Zaldivar (50%)	Chile	Antofagasta (50%)	\$625m	120
Pan American Silver	Timmins (100%)	Ontario	-	\$350m	185

* NAV's at 5% with exception of Eleonore 7.5%, Coffee and Massawa 10% and ABX Cu portfolio 8% Zaldivar, 10% other

**Includes Hoyle Pond, Hollinger and Borden. We ascribe additional insitu value of \$150m to Century

Source: GMP estimates, Company guidance

Barrick has now consummated the merger with Randgold. While there has been no new statement on portfolio rationalization, we believe non-core assets include Lagunas Norte, Kalgoorlie (50%) and Massawa.

- Lagunas has a short remaining mine life and the sulphide economics did not meet threshold.

- For Kalgoorlie, last year's pitwall failure could delay a deal and Newmont's stance on the mine could also complicate the process.
- For Massawa, it's a question of size and metallurgy.

While the copper assets are labelled strategic for Barrick, we still believe there could be a deal that divests a portion of the portfolio at the right price.

Newmont has indicated in its marketing that Red Lake is non-core and that Eleonore, Porcupine (incl. Dome Century), and Coffee need further evaluation and are considered only as "potentially" core.

- Red Lake has matured dramatically but there still is decent in-mine and near-mine exploration potential.
- Éléonore has struggled to ramp up and despite the mine being in the final stages of achieving steady-state production, the geological complexities are likely still seen as a possible risk. The recent reserve update saw another reduction in grade and ounces. However, Éléonore still carries an attractive 3.25mm oz reserve (at 5.69 g/t) and annual run rate production target of 400k oz. Any potential buyer would need to bring strong underground mining expertise to the table.
- The Porcupine assets in Timmins may also be deemed non-core for Newmont. This hinges upon the risk:reward view of the Century and Borden projects and consideration of future reclamation obligations in the district. We also believe that given Pan American Silver's continued focus on Latin America and silver, this may render the Timmins mines of Tahoe to be non-core. Timmins as a whole (i.e. consolidated) or reconfigured could potentially lead to a newly formed company or joint-venture partnership.
- Coffee may not be a geographic fit and may lack scale potential for Newmont. While the reserve reset in Q3/18 was disappointing, there remains a reasonably good grade heap leach project. It would be a better fit for Kinross or Agnico (seasoned colder climate operators), noting as well their ~20% interests in the largest titleholder in the region White Gold which owns the Golden Saddle project.

Who are the potential buyers?

Looking at our coverage universe, we have selectively taken a look at senior and intermediate producers and have put together a list of financial liquidity (refer to Figure 4). Certainly, there are several factors to consider when thinking of potential suitors for the assets that could be for sale from the recent M&A, but balance sheet flexibility is one of those factors.

Based on valuation and future FCF, we believe that Agnico Eagle, Kirkland Lake, B2Gold and Oceana Gold are among the producers that can consider bigger deals.

Although we don't cover the Australian gold producers (like Newcrest, Northern Star, Evolution, St. Barbara), consensus valuations indicate to us that they trade at reasonable multiples that could afford accretive acquisitions. Newcrest (NCM-AU, not covered) has shown interest in the Americas with minority investments in SolGold, former Almadex (now Azucar Minerals), and strategic investment in Lundin Gold.

Figure 4. Potential buyers' balance sheet summary

Company	Cash	Available Credit	Total Liquidity	Debt
Agnico Eagle	\$533m	\$1,200m	\$1,733m	\$1,722m
Kinross	\$470m	\$1,482m	\$1,952m	\$1,734m
Yamana	\$121m	\$688m	\$809m	\$1,779m
B2Gold	\$94m	\$100m	\$194m	\$486m
Alamos Gold	\$206m	\$400m	\$606m	\$0m
OceanaGold	\$70m	\$70m	\$140m	\$210m
IAMGOLD	\$734m	\$500m	\$1,234m*	\$396m
Kirkland Lake Gold	\$332m	n/a	\$332m	\$0m

*Total liquidity excludes \$170m gold prepay facility.

Source: Company presentations/Q3 financial statements

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