

GOLD

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All figures in US\$, unless otherwise noted.

Here Come the Aussies; Who's Next?

Event

In the wake of the May 14th announcement that Australian producer St Barbara (SBM-AS, NR) will acquire Atlantic Gold (AGB-T, N/R), we have racked our brains to find the most compelling criteria by which Aussie acquirers will rank their potential Canadian takeover candidates. We offer the following analysis.

Highlights

- ▶ **The Offer** | Atlantic shareholders will receive C\$2.90/sh in cash (total EV C\$802M) plus shares in a spinco company that will hold Atlantic's interest in Velocity Minerals (VLC-T, NR) for a total value of C\$2.95/sh, representing a 41.1% premium to the May 14th closing price and 40.8% premium to the 30-day VWAP. Atlantic's board has unanimously approved the proposed arrangement, locking up 32% of the shares outstanding. The takeover will require a two-thirds favourable vote. The deal is expected to close in July.
- ▶ **The Motivation:**
 - **Share Price Performance?** | Australian gold producers have dramatically outperformed their North American peers since January 2015, after at least a decade of generally following the same direction. Since Jan. 1, 2015, the TSX Gold Sub-Index has declined 10% while the Australian All Ordinaries Gold Index is up 190%. This phenomenon has started to break down over the past three months. The median North American Intermediate gold producer share price is down 5% over the past three months, while the Australians have fared worse: Northern Star (NST-ASX, NR, -6%), Evolution (EVN-ASX, NR, -10%), Regis (RRL-ASX, NR, -17%), St. Barbara (-36%). The Aussies might be feeling FOMO (fear of missing out) on this important advantage.
 - **NAV Accretion?** | The two largest Australian gold producers, Northern Star and Evolution (~\$4B each), are trading at 1.5x and 1.4x consensus P/NAV, respectively, compared to a North American Intermediate-tier median of 1.0x. Yet, St. Barbara was trading at 1.0x NAV, while Atlantic was at 0.84x before the 41% takeover premium. NAV accretion may not be key criteria.
 - **Production** | Most acquirers we speak to, Aussies included, have a strong preference for buying a producer — but not all.
 - **Low Operating Costs** | Despite posting a weaker-than-expected Q1/19, Atlantic's AISC was only \$655/oz, well below the global average. It also maintained its \$521–\$566/oz guidance for 2019. Low AISC bodes well for free cash flow generation, which we know is a crowd pleaser and something the Aussies have mastered, along with the concept of a dividend.
 - **All Canadian** | One strong common thread among the conversations we have had with Aussie acquirers is the preference for all Canadian assets. We're not sure if this is because of the Canadian currency advantage, a phenomenon Aussies appreciate (gold is trading at near record levels in both currencies) or a Trump aversion.
- ▶ **The Most Important Takeover Criteria? – Average Annual Temperature** | One would think that the key acquisition criteria for the Australians would be those listed above, but our analysis suggests it is really another that fits the St. Barbara-Atlantic acquisition best, average annual temperature. As we show in Figure 1, Atlantic has the highest average among the most likely Canadian targets.

Conclusion

Now is an excellent time to make acquisitions in the gold sector. Quality Developers and Explorers are selling at less than replacement cost, while North American producers are selling at cycle low prices. The Aussies have had a distinct valuation advantage, as well as access to capital, but their price advantage is starting to slip. "Gather ye rosebuds while ye may..." If our analysis is correct, the next closest targets are Pretium (PVG-T, NR) and Marathon Gold (MOZ-T, NR). Likewise, if our analysis is true, TMAC's (TMR-T, NR) November–March average -28° temperature will put it out of the running for senior Aussie warm-weather management, whose operations have an average annual temperature of 19 degrees. Our personal favourite, however, is Moneta Porcupine (ME-T, C\$0.25 TP, Speculative Buy, Kiwi CEO).

Figure 1: Temperature Comparison – Australian Producer vs. Canadian Takeover Candidates

		Average Annual Temp in C degrees		
St Barbara (Kalgoorlie)			18.5	
Northern Star (Wiluna)			21.7	
Evolution (West Wyalong, Aus)			16.4	
Regis Resources (Laverton, Aus)			20.3	
		<i>Average</i>	19.2	
	Status			
Atlantic Gold (Halifax)	Producer		6.7	
Pretium Resources (Stewart BC)	Producer	5.5		<i>Note: Rains 16 days per month average, 1811mm precip/yr. High snowfall, mountains & glaciers</i>
Marathon Gold (Deer Lake, Nfld)	Explorer	4.3		<i>Note: Different form English spoken here, b'y. See Newfie Dictionary: www.heritage.nf.ca/dictionary</i>
Wesdome Gold (Wawa)	Producer	1.7		<i>Note: Average 50 mosquitoes per cubic meter in summer. See footnote below.</i>
Premier Gold (Wawa)	Producer	1.7		<i>ditto except can escape to Mexico in winter</i>
Moneta Porcupine (Timmins, ON)	Explorer	1.4		<i>Note: Average 30 black flies per cubic meter in summer</i>
Wallbridge Mining (Val d'Or, Que)	Developer	1.1		<i>Note: Average temp Dec-Mar (4 mo) is -13.5;+E1 different language mon ami, but excellent poutine</i>
Detour Gold (Cochrane, ON)	Producer	0.6		<i>Note: 313 cm/yr average snowfall, 831mm average precipitation, muskeg not desert conditions</i>
TMAC (Baker Lake, Nunavut)	Producer	-11.8		<i>Note: Kind of like the opposite of the Outback. Average temp Nov-Mar (5 mo) is -28 degrees</i>



Source: Paradigm Capital Inc., Various Weather Databases

DISCLAIMER SECTION

Company	Ticker	Disclosures
Moneta Porcupine Mines Inc.	ME-T	3

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Total	156		

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