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Time looks ripe for record gold M&A

Resources

Brendon Lau

The conditions are ripe for mergers and acquisitions in the gold mining sector to exceed last year's record level, with the emergence of a new generation of mid-tier miners and the resurgent gold price driving the trend.

Silver Lake Resources and Bright Star Resources are the first two to pounce this year, with the former buying Phillips River Mining and the latter merging with Rift Valley Resources via a scrip offer.

Intermin Resources also said two weeks ago it was buying out its joint-venture partner for \$150,000 to gain full control of the Menzies project tenements, which have in the past produced 800,000 ounces of gold.

The total value of these transactions is well under \$30 million and is a long way off the record \$9.5 billion that was recorded in 2011, according to Bloomberg figures.

But that number could be surpassed this year, with the spot gold price jumping close to 11 per cent since January to a near eight-week high of a little under \$US1740 an ounce.

"We won't be surprised to see the previous record taken out as we think 2012 will be filled with

corporate activity," said Lime Street Capital analyst Andrew McLeod.

"Good companies are trading at attractive multiples and it is cheaper for the bigger guys to buy than to go out and explore."

Argonaut director Troy Irvin is also expecting corporate activity to be a dominant theme this year.

"Scale, particularly in the gold space, does matter," he said.

"Miners who can [expand] production, mine life or resources will get a re-rate."

Emerging gold producers that are trading at a discount to their fundamental value, that need capital to commercialise their deposits and that provide a geographical fit to a suitor are most likely to be taken out, Mr Irvin said.

Gold explorers with promising projects in need of funding include Azumah Resources and PMI Gold Corporation.

However, Phillip Resources Fund chief investment officer Chris Bain believes most of the consolidation will centre on goldminers with a market capitalisation about the \$500 million mark.

"These miners will find a much bigger investor audience if they get together through mergers," Mr Bain said.

But the belief that growing for the sake of growing is one of the worst reasons to undertake a

merger or acquisition holds true.

Mr Bain said that acquirers must be able to extract synergies from a transaction before it will make sense.

This means that consolidation between miners with adjacent assets is likely to be the most successful.

From that perspective, a merger between West Australian miners Silver Lake and Integra Mining could be on the cards, as could a merger between Australian-listed Papillon Resources and Canadian-listed IAMGOLD or UK-listed Randgold Resources.

Papillon's key asset is in West Africa, a region that is likely to see strong corporate interest this year, Mr McLeod said.

This means that Perseus Mining could also catch the eye of a global rival such as Barrick, Mr McLeod said.

"Noble Mineral Resources is another that is a good candidate for being taken over," he said.

"They are about to recommence operations at their Bibiani processing plant and are on track to produce 100,000 to 150,000 ounces per annum."

Nobel has an increasing production profile and an established resource of about 2 million ounces of gold.

The price of gold rose by just over 10 per cent in 2011, its 11th consecutive year of gains.

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That's gold

