

Proactive Investors Australia

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Gold sector sees M&A consolidation on ASX ahead of 2019 price uncertainty

Gold explorers and producers on the ASX have had a busy year in 2018, with increased mergers and acquisitions (M&A) buttressed by an uptick in exploration activity.

The gold price has increased steadily across the second half of the year, making up ground lost in a mid-year decline.

Price forecasts remain mixed but sustained global demand for gold coupled with a weaker US Dollar could see further improvements over the first half of 2019, with Bank of America Merrill Lynch predicting highs of \$US1,400 an ounce and an average of \$1,296 in 2019.

In its "2018 Precious Metals Review" released earlier this month, Refinitiv's GFMS metals research team said the US-China trade war this year had a negative impact on the gold price, pushing it below the \$1,200 per ounce level after trading above \$1,300 the first two quarters.

The cooling off between the US and China might drive the dollar down and be beneficial to gold, according to the report, but scheduled interest rate increases could constrain price upside.

Refinitiv reported that it expected 2018 to be another year of net de-hedging at a forecast 29 tonnes, 29% lower than in 2017.

It expects net physical demand to total 3,783 tonnes, 5% lower year-on-year.

While jewellery consumption is expected to pull back by about 4% year-on-year, the report notes industrial fabrication demand is likely to rise by 0.4% to an estimated 380 tonnes, fuelled by growing demand in the electronics sector.

Alto capital investment manager Tony Locantro told Proactive Investors Stocktube that Australian gold producers were doing well despite the global market.

Locantro said: "What I'm seeing at the moment is in Australia our property sector is due for a nasty correction.

"What I noticed today was the Dow dropped 800 points and the banking stocks were pole-axed, but all the major gold producers were up for the day.

"The Australian gold scene is doing quite well, especially when you can produce at a \$1,000 all-in sustaining and sell for, I think the Aussie gold price is about \$1,686.

Share Information

Code:

Listing:

ASX

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"So, our gold sector ... is in great shape and one of the themes coming up is M&A."

Increased M&A activity

According to PCF Capital Group, by the first week of December there had been 45 major gold asset transactions on the ASX for a total value of \$2.3 billion, with 23 of these yet to be completed.

This is up from 40 transactions in 2017 which totalled \$3.1 billion.

Exploration transactions were up on 2017, with 23 transactions in 2018 compared to 16 the previous year.

Research by S&P Global Market Intelligence shows global exploration budgets for minerals other than iron ore, coal and bauxite reached US\$10.1 billion in calendar year 2018, up 19% year-on-year.

Gold exploration spending of US\$54.3 billion in the past decade was 60% higher than the US\$32.2 billion spent across the preceding 18 years.

Also speaking to Stocktube, DJ Carmichael managing director & head of corporate finance Davide Bosio said that we were seeing active exploration and cashed up balance sheets now.

He said: "We're seeing a bit of activity with junior companies fighting over reserves, resources and near-term producing assets - it's been a very strong theme and one that I think investors have to give some attention to.

"We've started to see a lot more in North America ... we're seeing companies like Sandfire putting a lot of money to work in North America and various other jurisdictions.

"The West African gold belt seems to be firing up again as companies are able to raise money and have been active again.

"Australia really needs to fight for its relevance and that's the challenge of the guys with the balance sheet and the cash - they're always looking to replace reserves with tier-one reserves.

"There is very little fear now in crossing borders and provided the resources are there and the quality of the projects exist then I think these large companies have the balance sheets to make them work."

READ: Tribune Resources rejects Northern Star's offer

Much of the Australian gold sector's consolidation in 2018 was focused on Western Australia's Goldfields region.

Producer Northern Star Ltd (ASX:NST) acquired Westgold Resources Ltd's (ASX:WGX) South Kalgoorlie operations and began a buy-out of Rand Resources Ltd (ASX:RND) and Tribune Mining NL (ASX:TBR).

Other sizeable acquisitions in the region were Hanking Gold's purchase of Coolgardie-based Primary Gold Limited (ASX:PGO) and Intrepid Mines Limited's (ASX:IAU) acquisition of AIC Resources Limited (ASX:A1C).

Mergers of note include: Silver Lake Resources Limited (ASX:SRL) and Doray Minerals Limited (ASX:DRM); MacPhersons Resources Ltd (ASX:MRP) and Intermin Resources Limited (ASX:IRC); and the three-way merger between Bardoc Gold Ltd (ASX:BDC), Excelsior Gold Limited (ASX:EXG) and developer Aphrodite Gold Limited (ASX:AQQ).

Commenting on the Goldfields region, Locantro said: "The Eastern Goldfields, the Zuleika shear in particular - that's home to the likes of Northern Star, Rand and Tribune - have been producing and they've just paid out some of the most ridiculous dividends you've ever seen to shareholders.

"Northern Star and Evolution have major operations in that area and there has been some canny juniors that've gone in and pegged the ground - they've out-pegged them basically."

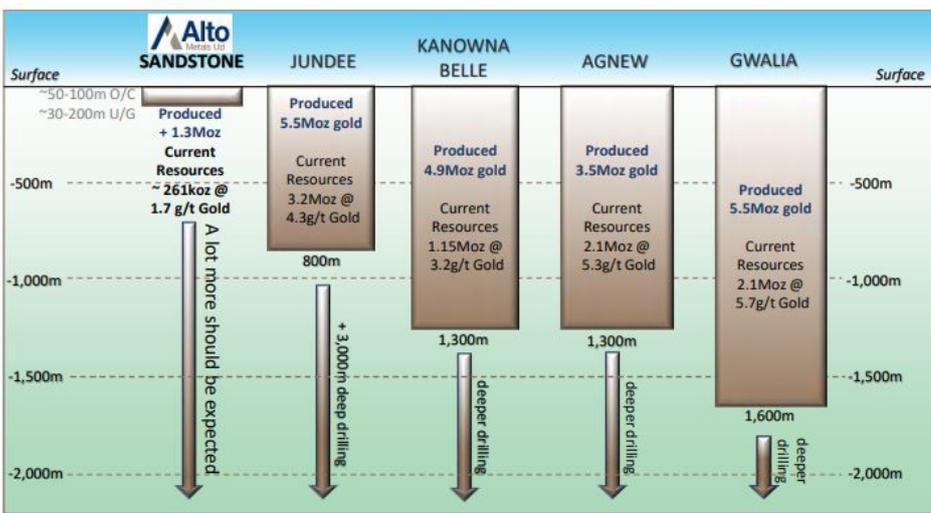
READ: Alto Metals intersects high-grade gold up to 19.2 g/t at Vanguard prospect in WA

Another WA region which has shown promise in 2018 is the Sandstone belt, within the East Murchison mineral field 630 kilometres northeast of Perth.

Alto Metals Ltd (ASX:AME) has had strong drilling success at its Sandstone Gold Project, where it aims to re-establish standalone oxide and primary gold operations.

The developer is focused on delineating a plus-1 million-ounce JORC resource to underpin the resumption of mining and processing.

It has already defined a gold resource of about 4.9 million tonnes at 1.7 g/t for 261,000 ounces of contained gold at Sandstone.



"Out there somewhere is another Bill Beament"

Locantro added: "They [Alto] dominate the Sandstone belt [and] they're trading at 4.2 cents.

"[Alto managing director Dermott Ryan] has the Sandstone belt pretty much stitched up and I think that's just a drill-out story.

"Out there somewhere is another Bill Beament.

"Everyone should be aware that Northern Star was a 1-cent stock and Bill's gone out - M&A, whack whack whack, had some discovery success - and he's now trading at \$8.50."

Emerging high-grade gold field

The year also saw further development of Australia's newest goldfield, the Yamarna belt, 200 kilometres east of Laverton.

Gold Road Resources Ltd (ASX:GOR) has an extensive portfolio of exploration assets in the area, also known as the WA's "Golden Highway".

The company uses a staged project pipeline approach to manage, prioritise and measure success of its exploration portfolio, with targets classified and ranked using geological and economic criteria.

In November 2016, Gold Road entered into a partnership with Gold Fields Ltd (NYSE:GFI) for the Gruyere Joint Venture covering 144 square kilometres of its 6,000-kilometre total Yamarna landholding.

READ: Gold Road Resources concludes successful year of exploration in the Yamarna belt

Drilling designed to support the estimation of a maiden resource at Yamarna is ongoing, with Gold Road delivering high-grade assays from a number of prospects.

Exploratory drilling at the Gilmour discovery returned: 4 metres at 19.61 g/t gold from 111 metres, including 1 metre at 74.98 g/t from 113 metres; and 8.15 metres at 7.11 g/t from 261 metres, including 1.23 metres at 31.98 g/t from 267.91 metres.

Best results from infill drilling at the Smokebush target include 22.24 metres at 1.40 g/t gold from 82.17 metres and 11 metres at 2.27 g/t Au from 47 metres.

Bedrock gold mineralisation was confirmed at the Yaffler South target, with visible gold in diamond drilling returning 3.6 metres at 3.68 g/t gold from 281 metres.

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