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ATLANTIC CAPITAL MARKETS



# The Gold Rush 2020

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# The Gold Market

Since the dawn of time gold has become engrained within many cultures across the world. Valued as a currency, a commodity, or simply for its visual beauty, gold has remained a store of value for thousands of years. Now revered as the world's most precious commodity golds scarcity, uses, and proven performance, all help make gold an appealing commodity.

## Gold Demand & Supply

Whilst traditionally seen as a safe haven, over recent years gold has expanded its applications and demand for gold can now be broken down into four core categories- technology, central banks, jewellery and investment. Gold demand has been growing steadily in recent years, fuelled largely by its move into an industrial metal status and heightened use in the technology sector. This doesn't change the fact that continued volatility on a global level has also maintained its long-term status as a safe-haven asset.

Historically gold has also been used for hedging with the key hedging strategies outlined below.

## Inflation Hedge

Gold has historically been an excellent hedge against inflation. This hedge works largely because gold prices tends to rise when the cost of living increases. Over the past 50 years investors have seen gold prices rally strong during high-inflation years. Gold is seen as a good store of value so people may be encouraged to buy gold when they believe that their local currency is losing value.

## Geopolitical Uncertainty

Gold retains its value not only in times of financial uncertainty, but in times of geopolitical uncertainty. It is often called the "crisis commodity," because people flee to its relative safety when global tensions rise.

## Increasing Demand

Increasing wealth of emerging market economies can increase demand for gold. In many of these countries, gold is intertwined into the culture. India for example, is one of the largest gold-consuming nations in the world. This is largely attributed to the Indian wedding season in October which is traditionally the time of the year that sees the highest global demand for gold. In China, where gold bars are a traditional form of saving, the demand for gold has been consistent.

## Commodity Vs Stock

We prefer to look at buying stock with exposure to gold rather than straight out gold. There are several reasons for this,



- Gold as a commodity trades almost continuously and can be exposed to moves all over the globe.
- Gold stocks invariably have other operations or are mining other metals so if gold prices drop there is a good chance your gold miner will hold firm (The downside of that of course is if the company has issues itself).
- Potential for dividends is also appealing, clearly gold direct doesn't pay out a dividend.

While there are many reasons to own gold, they typically all come down to protecting yourself against a risk. Whether you want a little protection in case the dollar loses some value through inflation, holding some gold might be appropriate. When assessing a gold stock or in fact any precious metal miner there are some key considerations to take into account:-

## Key Factors

**Type of project:** There are many ways to mine or extract gold, and all have a bearing on the overall cost of extraction.

**Reserves:** The amount of gold left to be mined is a key factor when evaluating the prospects of a mine. Clearly a miner with a large reserve will be able to demand a higher value than one with a small one. Reserves represent gold-bearing ore that is known to exist.

**Dividends:** Gold producers are known for paying dividends. Most miners set themselves a pay-out ratio against earnings or cash flow to give investors an idea of its policy, and this means they can move in line with results year-by-year.

**Location:** The location of its mines is a key factor for two reasons. The first is the regulatory and political environment of the country it operates in and the second is the impact it will have in terms of foreign exchange.

**Mineral resources:** One step further are mineral resources, which are reserves that are known to be able to be extracted economically. These hold a higher weight than reserves and are closely watched by investors.

**Grades:** Reserves and resources will also be graded. For example, a miner could boast grades of 5.0 grams of gold per tonne of ore. The higher the grade the better as more gold can be mined from less ore, which is quicker, cheaper and easier for a miner. Gold grades can vary wildly.

## Stocks To Watch

### Barrick Gold

Barrick Gold Corporation is the second-largest gold mining company in the world, with its headquarters in Toronto, Canada. The company has mining operations in Argentina, Canada, Chile, Côte d'Ivoire, Democratic Republic of the Congo, Dominican Republic, Mali, Papua New Guinea, Saudi Arabia, Tanzania, the United States and Zambia. In 2019, it produced 5.5 million ounces of gold and 432 million pounds of copper. The company also had 71 million ounces of proven gold reserves. On January 1, 2019, a new Barrick was created following the merger between Barrick Gold Corporation and Randgold Resources. The merger created a sector-leading gold company which own five of the industry's Top 10 Tier One mines. On July 1, 2019, Barrick combined its Nevada assets with





those of Newmont to create Nevada Gold Mines (61.5% owned and operated by Barrick) resulting in Turquoise Ridge becoming the sixth Tier One mine in the Barrick portfolio. And in September it bought out the minority shareholders in Acacia and took over the management of its Tanzanian assets.

### **2019 Annual Report Key Takeaways**

- Gold Production up 21% 5.5m OZ
- Net earnings up 357% \$3,969m
- Debt, Net of cash down 47% \$2,222m
- Adjusted net EPS \$0.51
- Net cash provided by operating activities up 61% \$2,833m
- Free cash flow up 210% \$1,132m
- Gold proven and probable reserves up 14.5% 71m OZ

### **Centamin**

Centamin was first listed on the Australian Stock Exchange in 1970. In 1999 it acquired Pharaoh Gold Mines, a company that had been exploring for gold in Egypt since 1995, and became "Centamin Egypt". Centamin mines gold from its flagship Sukari gold mine in Egypt that opened in 2009 and has become a monster that produces around 500,000 ounces per year. With 7.3m ounces in reserves, the mine has the potential to run at its current output for at least 15 years and the company hopes that can be expanded further. It is exploring for further resources in the Ivory Coast and Burkina Faso.

Production from Sukari was 2% higher year-on-year in 2019 at 480,529 ounces and that is set to grow to 510,000 to 540,000 ounces in 2020. Several changes were made to the senior management last year, including the appointment of a new chief executive officer (CEO) Martin Horgan. He co-founded Toro Gold which developed the Mako Gold mine in Senegal before being sold-off to Resolute Mining in August 2019. The new CEO has already outlined his ambition to wean Centamin off its reliance on Sukari to become a 'multi-asset gold producer'.

### **2019 Annual Report Key Takeaways**

- Gold Production 480,528 OZ
- Group mineral Resource 15.3m OZ
- Revenue up 85% To \$652m
- Profit After Tax up 13% To Us\$172.9m
- Ebitda Improved 10% To Us\$284.0m
- Cash and Liquid Assets \$349m
- Free Cash Flow \$74m



## Hochschild mining

Hochschild Mining traces its origins to the original Hochschild Group founded in 1911 by Mauricio Hochschild. In 1922, the Hochschild Group expanded into Bolivia, where it developed significant interests in tin. The Hochschild Group commenced operations in Peru in 1925, and in 1945 Luis Hochschild joined the Hochschild Group's Peruvian operations. Currently operating three underground mines, two located in southern Peru and one in southern Argentina. All the underground operations are epithermal vein mines principal mining method used is cut and fill. The ore at our operations is processed into silver-gold concentrate. In 2019, Hochschild produced 16.8 million attributable ounces of silver and 269.9 thousand attributable ounces of gold, a total of approximately 37.0 million attributable silver equivalent ounces or 477,000 gold equivalent ounces.

### 2019 Annual Report Key Takeaways

- Revenue up 7% at \$755.7m
- Adjusted EBITDA up 28% at \$343.3m
- Profit before income tax up 89% at \$103.4m
- Basic earnings per share up 80% at \$0.09
- Cash and cash equivalent balance of \$166.4m
- Net debt reduced by 57% to \$33.2m
- Attributable production of 477,400 OZ
- Record production at Inmaculada up 6% to 260,126 gold equivalent ounces
- Record production at San Jose up 10% to 15.4 million silver equivalent ounces

## Petropavlovsk

The Group was founded by Peter Hambro and Pavel Maslovskiy in 1994 as an Anglo-Russian venture to develop a highly prospective, under-developed gold project in the Amur region, Russian far east.

The company was first listed on AIM's market as Peter Hambro Mining. In September 2009, the company changed its name from Peter Hambro Mining plc to Petropavlovsk plc, retaining the POG stock exchange code, in order to reinforce its Russian focus. In 2017, founder Peter Hambro stepped down as chairman of the company and Pavel Maslovskiy resigned after pressure from a group of shareholders led by Viktor Vekselberg. Petropavlovsk operations are primarily Russian focused with a focus on the Amur region. It has three gold mines named Pioneer, Albyn and Malomir, as well as the Pressure Oxidation facility (POX Hub) that can treat its refractory gold reserves and that of third parties.

### 2019 Annual Report Key Takeaways

- Mineral resources 21.03m OZ
- Total gold production 517k OZ
- EBITDA up 45%: \$264.8m
- Profit for year down 0.8%: To \$25.7m
- Net Debt reduction: \$ 561.3m
- Capital expenditure down 23%: \$103.8m



## Greatland Gold

In the lower tiers the star of the sector is Greatland gold. The company has gained a lot of positive attention over the last year and with just cause to do so. The Company was established in London in 2005 and was admitted to trading on the AIM market in July 2006. The company has a well-diversified portfolio of projects in highly prospective geological areas with pre known reserves and deposits of gold and nickel. The Company is actively developing projects in under-explored parts of these known mineralised systems.

The business' current activities include, mapping, soil sampling, geophysical surveys and drilling on target areas. They are constantly reviewing historic data and combine this with regional geophysics and combine this with analysis of incoming geochemical and geotechnical data, allowing projects to develop and progress towards realising resources and reserves.

Greatland itself has got a large footprint in the Havieron region and it's got a track record of success. The company has identified several high priority targets close by as well. Greatland is in a strong financial position with approximately £6mIn in cash as at June 30, 2020, and remains well-financed to conduct all planned activities over the next 12 months.

Sentiment surrounding progress at its jointly held Havieron licence remains high and the recent granting of a license has seen Greatland's landholding in the Paterson region expand from 385 square kilometres to 450 square kilometres.

### 2019 Annual Report Key Takeaways

- Havieron emerges as a significant gold-copper discovery. Five successive sets of excellent, high-grade results from Newcrest drilling
- Continuity of mineralisation demonstrated over 450m of strike, up to 150m wide, and in excess of 600m in vertical extent
- Newcrest accelerating exploration: Stage 1 (US\$10 million) of US\$65m Farm-in
- Agreement completed, expanded 90-person camp on site, eight drill rigs now operational
- Newcrest targeting maiden resource by the end of calendar year 2020 and commercial production within subsequent 2-3 years
- Multiple high-priority drill targets identified across the Paterson region
- Scallywag: Four new high-priority targets identified following geophysics programme, including Kraken, London and Blackbeard
- Paterson Range East: Eight high-priority targets identified following geophysics programme, including Goliath and Los Diablos
- Black Hills: Encouraging drilling results confirm presence of near-surface gold system at Saddle Reefs prospect, which includes high-grade gold mineralisation
- Firetower: Drilling supports the potential for a robust, near-surface gold system as well as indications of a new Volcanic Hosted Massive Sulphide system at Firetower East
- Warrentinna: Maiden diamond drilling programme at Derby North prospect



- intersects high-grade gold mineralisation
- Panorama: Geophysics and geochemistry extend strike length of mineralised
- trend to over six kilometres
- Raised £4.2 million in a strategic financing to accelerate exploration in the Paterson region

## Polymetal

Polymetal International plc is a top-10 global gold producer and top-5 global silver producer with assets in Russia and Kazakhstan listed on the London Stock Exchange, Moscow Stock Exchange and Astana International Exchange. Polymetal has a portfolio of nine producing gold and silver mines and an impressive pipeline of future growth projects. Apart from being recognised as a miner that actually takes its ESG commitments seriously, it has also been a company noted in the sector for its operational excellence, growing production 130% in 10 years from 681,000 oz of gold equivalent to 1.61m oz in 2019.

Polymetal has reported no interruptions in its operations in either production or with its supply chain in either Russia or Kazakhstan. Due to bans on international travel, its ability to move vital employees over the border between Russia and Kazakhstan has been pronounced at risk. Its operation at Dukat has been considered the most exposed but it has been filling vital operational gaps with temporary hires. As of 31 March, it had \$565 million in cash on its balance sheet. It continues to maintain over \$600 million in available credit lines for any additional requirements.

## 2019 Annual Report Key Takeaways

- Revenues increased 31% to \$2.24B.
- Net income before extraordinary items increased 37% to \$483m.
- Revenues reflect Kazakhstan segment increase from \$272M to \$655m.
- Dividend per share increased from \$0.48 to \$0.62.
- Adjusted EBITDA \$1.07bn
- Net Profit \$483m
- Free cash flow \$299m
- Net debt, \$1,479m
- Global gold mine production totalled 3,464 tonnes

## Fresnillo

Whilst Fresnillo is more known as the world's largest silver miner they also mine gold and are Mexico's second-largest gold miner. Fresnillo incorporated in the United Kingdom and headquartered in Mexico City. The company operates three gold and silver mines in Mexico with the largest mine, in terms of silver output, is Mina Proaño (also known as Fresnillo Mine), located near the city of Fresnillo in the state of Zacatecas; the other mines are at Cienega, in Durango, and Herradura, in Sonora.



## 2019 Annual Report Key Takeaways

- Gold Production 875,913 OZ
- Total Revenue 2,119.6m
- Adjusted Revenue 2,270.2m
- Gross Profit 461.7m
- EBITDA 674.0m
- Total attributable gold resources 39.0m OZ
- Silver Production 54.6m OZ
- Total attributable Silver resources 2,256.7m OZ

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