GSAPro™

The version of Gold Stock Analyst newsletter for Professional Investors
Reports on 60+ Gold miners plus the mid-month GSA-Top10 newsletter

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Top 10 News (on Pg 3):

For Subscribers

Merger Mania Coming to Gold Mining?

Barrick announced Sep 24, 2018 it would merge w/Randgold effective Jan 2, 2019 for $6 bil in shares. The 5.8 mil oz/yr producer bot the 1.3 mil oz/yr African miner, but the latter's holders ended with 33% of the combo while adding only 18% of combined 7.1 mil oz/yr production. GOLD's ounces were worth more than ABX's?

Newmont, at 5.1 mil oz/yr, was not to be topped for long, as on Jan 14, 2019 it said would give $10 bil in shares for 2.6 mil oz/yr Goldcorp and become investors' "go to" Gold stock. NEM holders would end w/65% of NEM and GG with 35% of the 7.7 mil oz/yr merged Co, approx equal to each miner's share of total production.

Deals rumored under discussion include Kinross buying IAMgold and Anglogold acquiring Gold Fields.

None of these actual or possible deals fit the usual Gold miner acquisition template, where a larger miner buys a smaller w/good expl site (Goldcorp bot Coffee), or diversifies into a new metal (Silver Standard, now SSR, bot Gold mines Merigold and then Seabee).

Let's see if they fit with some other reasons to merge...

Acquire to gain market share, lessen competition, and exert the market pricing power of a monopoly. Not the case here. With total Gold mine production of ~100 mil oz/yr and secondary supplies from scrap and sometimes Central Banks, even a 20 mil oz/yr Au miner couldn't exert pricing power to drive Gold higher.

Merge to impose prices on suppliers and drive down costs: Office Max acquired by Office Depot in 2013. Not in Au, as largest input costs are labor and oil/power.

Merge to expand geographic service area and increase total business as when two regional airlines combine or when Delta acquired PanAm. Again, not here.

Merge to acquire the recognized better management stills of the acquired. This fits the ABX/GOLD deal exactly. Randgold's Bristow is widely acclaimed an excellent manager, growing a portfolio of African mines to highly profitable 1+ mil oz/yr, mostly in non-democratic nations

Merge for no good reasons for investors beyond management's vanity and to use its now larger size to justify a higher pay package. This fits the NEM/GG deal as there's no property synergies. The merged Co does not even have a role for GG's overpaid and ineffective CEO Garofalo, who got C$16 mil for two years of helming GG plus C$11 for his "change of control" golden parachute.

Investors playing the "takeover game" buy expected targets and hope for a fat premium bid to produce big capital gains. And, investors have been rewarded by recent deals: the +35% premium offered by PanAm Silver for Tahoe Nov-18, the +57% premium offered by Ziljin for Nevsun Sept-18, the +49% premium from Orion Mine Finance for Delradian Reseources June-18, and the +50% premium South32 paid for unowned shares of Arizona Mining June-18.

But anyone investing in the above "elephants" for takeover gains has been disappointed. The Barrick/Randgold deal was at zero premium and the Newmont/Goldcorp, a miserly +17%.

The Gold space does not need big miners as "go to" proxies for the Metal. Gold can be bought directly via the Gold ETFs and investors wanting more leverage to Gold price's upside can buy the best proxies, the Royalty earners, due their widely diversified portfolios, and also earn dividend yields of over 1%.