

# Rickety market is following the yellow brick road

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GOLD has been overshadowed by its better-performing base metal cousins since the start of the mining boom.

But times are changing. The recent global market turmoil has actually improved the prospects for the yellow metal, given it is seen as a safe haven in a time of rising inflation, a weak US dollar and economic uncertainty. The gold price reached \$US913.70 an ounce on Friday, just shy of the record \$US914.30 on January 14. In Australian dollar terms gold has risen from \$754 an ounce last July to hit \$1035 on Friday.

Last week Reuters published its annual precious metals price poll, which included forecasts from 50 analysts. The median gold price prediction for this year was \$US850 an ounce, with a range between \$US750 and \$US1056. Given the average gold price last year was a record \$US697 an ounce, it is clear the market is bullish on the metal.

Gold producers are hardly complaining about the gold price, but it would have to rise to \$US1465 to top the 1980 record in inflation-adjusted terms.

The Drum was not a gold fan until recently, given that until last July the price had not moved enough in Australian dollar terms to compensate for the higher costs miners were facing. Not to mention the unprofitable hedging, a legacy of years of lower gold prices. **Newcrest Mining's** hedge book was so far in the red it took a \$2 billion equity raising in October to rectify.

But now the gold price looks to be "stronger for longer", it is worth taking a look at some of the smaller Australian producers and near-term hopefuls.

## Avoca digs deeper

If there is a market darling of the mid-tier end of Australia's gold sector, it is **Avoca Resources**. Mention the name to nearly any broker in Western Australia - and an increasing number of the eastern states - and the talk will probably be complimentary.

Citigroup last week started covering the stock, rating it a "buy". Avoca expects to start the first commercial production at its Trident mine in July, with the high grades giving it relatively low cash costs of \$360 to \$450 an ounce.

Avoca could produce 150,000 ounces in its first year, but its management team has an eventual target of 190,000 to 200,000 ounces. Avoca's Higginsville tenements had been mined through open-cut methods by **Gold Fields**, but the South African company did not drill deep enough to discover the large underground resource.

Citigroup noted Avoca was trading on a relatively expensive \$US800 an ounce reserve multiple, but said that simply meant the market was placing a high probability on Avoca proving up more reserves at Higginsville. The broker has a \$2.80 target price on the stock, which has a market value of \$430 million.

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Flush feeling for Norton

Like Avoca, **Norton Gold Fields** also picked up its ground from a big producer - but Norton bought an operating mine.

Canada's **Barrick Gold** sold its Paddington deposits and mills to Norton last year. Perhaps it is no coincidence that Norton's chairman is the former Barrick chief executive Tony McLellan, although the company only picked up the assets after a South African group was unable to arrange the proper financing.

In a glowing report this month, an analyst with Intersuisse, Paul Gooday, called it "the deal of the century - two mills, reserves and the gold price heading north".

Norton produced 63,000 ounces in the first 18 weeks of ownership last year and expects to produce more than 150,000 ounces this year. Some is hedged at \$875 an ounce.

The chief financial officer of Norton, Simon Brodie, said a few management changes helped increase Paddington's performance. "Barrick ran Paddington as part of a portfolio of properties," he said. "It didn't have its own general manager."

Given Norton recently announced it had tripled the resource to 3.17 million ounces - including 1.01 million ounces of reserves - the company hopes to eventually buy or build another plant to increase production.

And in an environment where financing is not easy to come by, the strong cashflow from Paddington has placed Norton in a prime position to pick up other assets.

### **Navigator has the assets**

Although **St Barbara** is the company most associated with the asset fire sale by the administrators of Sons of Gwalia, **Navigator Resources** was the first mover. And the junior's Leonora gold project looks to be moving ahead after it last week secured an option to purchase a 700,000 tonne a year processing plant.

Navigator has 870,000 ounces of shallow, open-pit resource, with an average grade of 2.2 grams a tonne. By processing the highest grade material first, it could produce 75,000 ounces a year - and plenty of cashflow - during the first two years of production. After that, it could use its earnings to expand the plant to at least 1 million tonnes of capacity to keep production steady.

"I think in the longer term we have a multimillion ounce project potentially, going underground," said the managing director, Tom Sanders. It has targeted first production for next year, but is "pulling out all the stops" to start mining earlier if possible.

Mr Sanders said Navigator would prefer to remain unhedged given the positive outlook for gold. His company also owns a promising rare earths project, but he said Leonora remained the primary focus.

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