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Gold is flying but miners are left in the dirt

Cheap targets abound, with some juniors reaching point where investment needs of projects look overwhelming.

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https://www.ft.com/content/c18e53b3-2a42-41a9-b8b1-09087ee8ddea

Liquid gold is poured to form gold bars at Newmont Mining's Carlin gold mine near Elko, Nevada. Shares of the Denver-based group have fallen into a pit, down 25% over one year © Reuters

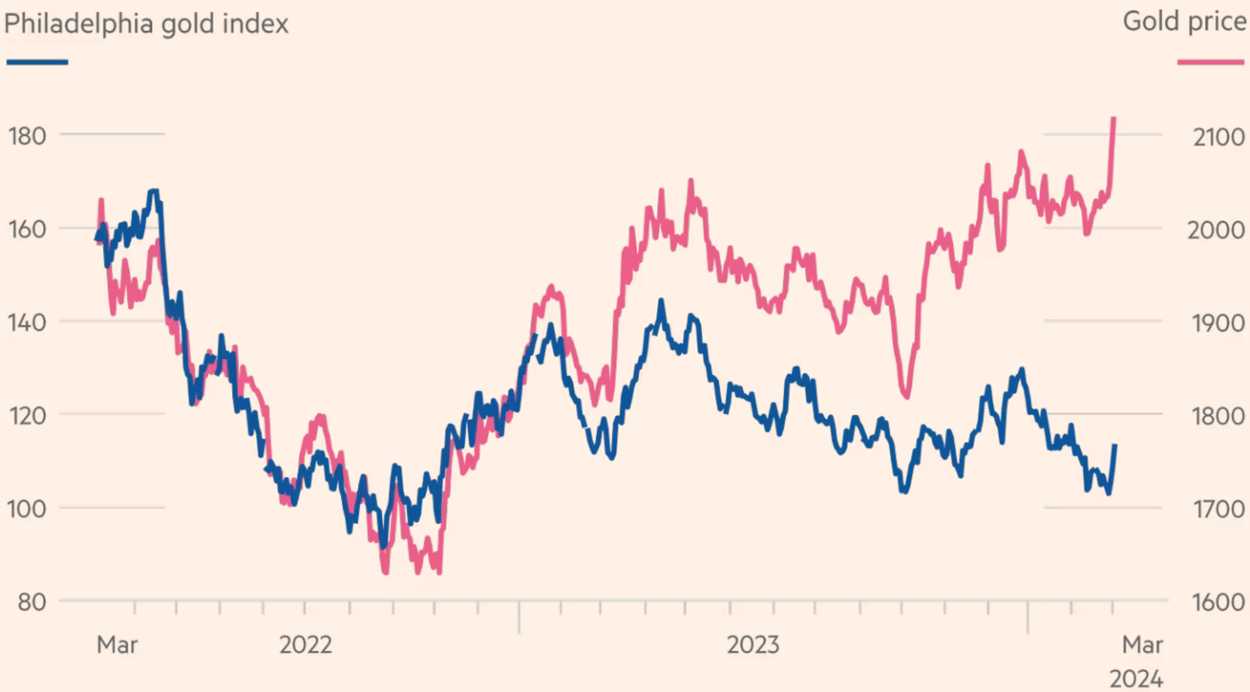
When the world's largest gold miners by market value prefer to discuss copper projects, the shiny metal might have an image problem.

The gold price this week hit another record high, above $2,100 per ounce. Expectations of lower US interest rates and persistent demand from Chinese households are two reasons for this.

But the biggest miners, such as Newmont and Barrick, haven't enjoyed the same success. Shares of Denver-based Newmont Mining have fallen into a pit, down 25 per cent over one year. This follows Newmont's deal to buy Australia's Newcrest last February for an increased price of $19.5bn, too rich for shareholders. Barrick shares have also struggled. It has plans to build a copper-gold mine in geopolitically risky Pakistan.

Unlike goldbugs, equity investors demand free cash flow for share buybacks and dividends from gold miners. Investors have little faith in mining executives as stewards of their capital. Ironically, this disconnect between metal and miners may prompt more dealmaking.

Mining stocks have trailed the gold price



Source: LSEG via markets.ft.com

Investors haven't shunned all gold miners. Canada's Kinross Gold, under pressure from activist investor Elliott Management, has used surplus cash to buy back its shares. Its stock has climbed 42 per cent over the same period. Number three largest, Agnico Eagle, has benefited from fiscally conservative management and mine assets sitting in politically stable Canada.

Deals for small- to medium-sized miners are most likely to find favour with investors. China's Yintai Gold last month stepped in to buy Osino Resources for C$368mn in cash ($272.53mn). This topped that of Osino's local rival Dundee Resources. These smaller acquisitions have gilt-lined shareholder pockets in recent years.

The best returns on investment — averaging 100 per cent — occurred on purchases under $2bn, according to an analysis of 22 deals since 2018 by BMO Capital Markets. These were usually mid-sized miners buying small fry with greenfield projects. On the other hand, Newcrest's merger destroyed some $1.4bn of value.

Cheap targets abound, thinks John Hathaway at Sprott Asset Management. Some juniors are reaching the point where the investment needs of projects look overwhelming, forcing a sale.

Smaller miners fall into two camps. Some in production, such as Toronto-listed OceanaGold, should soon turn free cash flow positive, notes BMO. Others need new sources of capital: Reunion Gold needs money to develop its Oko West mine in the new petrostate of Guyana. That might appeal to risk-taking investors, or miners with capital.

Should the gold price continue its ascent, talk of deal activity will only grow. Shareholders, wary of overpaying for growth, would prefer companies to mine the market for cheap assets first.