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Of DOW JONES NEWSWIRES

NEW YORK (Dow Jones)--Record-high gold prices and easier credit conditions are fostering a resurgence in merger-and-acquisition activity among small mining companies, a venture-capital-dependent sector that was hit hard by the financial downturn.

The number of transactions is growing as large producers seek to add to their resource base by buying smaller exploration and production companies and as some of the smaller companies look to snap up their peers.

Gold trading around \$1,100 a troy ounce is high enough for miners to make money but low enough that investors could see upside. And while this gold price is well up from the nadir hit during the credit crunch, not all of the so-called juniors' shares have matched that rise, with some investors looking to stick with assets they find safer. That lag in stock performance behind gold prices makes some of the smaller miners attractive takeover targets.

"You're sort of in the sweet spot here," said Wayne Atwell, managing director and head of research with natural-resource investment bank Casimir Capital, who sees gold continuing to trade in a range from \$1,000 and \$1,250 for some time. "Just about every property is profitable at these levels."

Among the larger companies on the move, Toronto-based miner Kinross Gold Corp. (KGC) recently announced an offer for Yukon explorer Underworld Resources Inc. (UW.V), and Vancouver-headquartered producer Goldcorp Inc. (GG) purchased a 70% stake in a copper-and-gold project in Chile from Canada's New Gold Inc. (NGD). On the smaller side, New York-based Mexican gold producer Capital Gold Corp. (CGC) is in the process of acquiring Canada-based Mexican gold-silver explorer Nayarit Gold Inc. (NYG.V).

Private equity is also getting involved. Several funds managed by Paulson & Co. Inc. recently invested \$100 million on NovaGold Resources Inc. (NG), which also received \$75 million from Quantum Partners Ltd., run by Soros Fund Management LLC.

"There's a lot of capital coming into the space," said William Hunter, managing director and head of mining investment banking with Jefferies & Co., a subsidiary of Jefferies Group Inc. (JEF).

Although some companies' share prices have rebounded, especially after spot gold's record high of \$1,226.30 in December, others remain undervalued, said Joe Foster, portfolio manager with the Van Eck International Investors Gold Fund and strategist with Van Eck's Market Vectors Junior Gold Miners (GDXJ) exchange-traded fund. Some of these include Canada-based South American exploration company Guyana Goldfields Inc. (GUY.T) and Keegan Resources Inc. (KGN), a junior based in Vancouver with projects in Ghana.

"We definitely do see ourselves as undervalued," said Jacqueline Wagenaar, director of investor relations with Guyana Goldfields. That's why the company isn't entertaining conversations about selling itself, despite about a dozen companies expressing interest over a number of months as gold has risen, credit has eased and Guyana's management has changed.

A Keegan representative couldn't be immediately reached for comment Friday.

Victor Goncalves, president and economist with Equities & Economics Report, said merger-and-acquisition activity is "really going to pick up" as large producers look to purchase assets while the gold price is high and capital markets are in their favor.

Although the biggest mining companies will continue to be cautious before spending money on acquisitions, "they're all out there looking to get their hands on assets," said Imaru Casanova, a precious-metals mining analyst with Barnard Jacobs Mellet. The ones who show the least reserve growth are going to be the hungriest for new ounces.

Of the majors, Newmont Mining Corp. (NEM)--the world's second-biggest miner after Barrick Gold Corp. (ABX)--probably has the greatest need for new resources, with essentially only a handful of big projects slated to come online in the middle of this decade or beyond, said Adam Graf, senior analyst in precious metals and emerging miners with Dahlman Rose & Co. Barrick isn't far behind, though, he said. Representatives at Newmont and Barrick didn't immediately return phone messages Friday seeking comment.

Goncalves said likely targets include Canadian gold explorers Eastmain Resources Inc. (ER.T), which recently raised \$5 million in a private share placement, and Richfield Ventures (RVC.V), which closed a \$7.5 million private placement in December.

Richfield President and Chief Executive Peter Bernier said it is too early in the company's development for a large miner to be interested enough to make an offer: "We're talking to majors right now, but for them to take a run at us now would be too early."

Donald Robinson, president and CEO of Eastmain said the company is working toward selling its flagship Clearwater project in Quebec. Eastmain hasn't received any offers, but half a dozen companies have expressed interest, Robinson said.

"Our fundamental strategy is to advance the project to where the project is acquired or the whole company is acquired," Robinson said.

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