

Are companies merging to look stronger?



The gold industry has come under the investor's spotlight in recent months, as a result of weak capital management, coupled with a decrease in reserves and high extraction costs. Now that the age of deposits with 20Moz Au and 30Moz Au has passed, gold miners are pursuing cost efficiencies, which has led to large companies merging in order to create even larger and more powerful companies. Following the example of Barrick Gold buying Randgold Resources for US\$6.5B, Newmont Mining announced the purchase of its rival

Goldcorp for US\$10B to produce the largest gold mining company in the world, by exceeding Barrick with production of about 7.9Moz Au per year.

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[Mr. Michael Fulp](#) is an analyst and exploration geologist with over 35 years experience and he believes that merged companies are definitely not stronger, as the mining business is based on profitability, regardless of the volume produced. "Mining is not a growth industry, it is a value industry. It should be based on margins and large gold

mining companies have not made this their focus. They haven't done so since the price started to rise in 2002. They have failed to reward their shareholders year after year," said Mr. Fulp.

Mr. Fulp also emphasized the reaction of Wallstreet markets, where the value of Newmont's shares fell after the merger announcement, while Goldcorp's shares did not appreciate.

"It is impossible for large gold mining companies to replenish their reserves every year. Newmont reached its gold production peak in 2005, as its production in 2017 was



29% less than the peak in 2005. Goldcorp lost 25% in each gold production peak in 2015, while Barrick has lost 38% in production since its peak in 2006. So bigger does not mean better".

Recently, the CEO of Newmont, Mr. Goldberg, has said that they are not expecting an upward trend in gold prices, however they are optimizing the company's assets to survive the price cycle. They expect that the company's assets will generate profits of about 50%.

Mr. Victor Dergunov is founder of Albright Investment Group and has recently said that if gold prices continue to climb, Goldcorp should generate more revenue and profits, which suggests that the US\$10 billion paid by the company is likely to appear fairly cheap in the future.

Mr. Dergunov believes that the gold

market is ready for a major rally, as prices have increased by more than 20% compared to the increase in interest rates since the beginning of the bull market.

Gold has been trapped in a trading range for several years, and could erupt in the near future".

During the last three years, the gold price has ranged between US\$1,180 and US\$1,360, but in one or two years time it could be around US\$1,400 and US\$1,550.

Other analysts claim that global production is about to suffer a sharp drop as a result of developing pre-tested reserves and the absence of new discoveries.

Mr. Michael Siperco is an Analyst with Macquarie Research and he believes that the Barrick-Randgold and Newmont-Goldcorp agreements could trigger a broader consolidation

within the industry, now that too many gold mining companies are chasing very few assets.

In fact, the third merger in the industry over recent months could be Pan American Silver Corp. This company could be acquiring Tahoe Resources Inc for US\$1.07B.

"Usually, when such mergers occur, many similar mergers occur during successive months. I believe that the only companies that will benefit from all these mergers are the junior gold mining companies, given that large companies will shed staff, cut projects, and sell assets that are not regarded as essential. Then the junior companies can buy them up at cheap prices," said Mr. Michael Fulp.

Goldcorp in the region

Since the merger was announced, Goldcorp representatives have been

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evaluating their preferred assets and those that may require further work. "Those that we really prefer would be Peñasquito in Mexico, Cerro Negro in Argentina and Musselwhite in Canada", emphasized the CEO, Mr. Goldberg.

Based on similarities with Newmont's assets, Mr. Gary Goldberg sees potential for improvement in some Goldcorp properties, as Peñasquito compares with Newmont's Boddington and Cerro Negro compares with Newmont's El Tanami.

Goldcorp has been investing in Santa Cruz province, Argentina, since 2010; which is the location of its largest mine with the longest useful life: Cerro Negro.

The company announced an investment of US\$750M in Cerro Negro last year covering exploration, maintenance and expansion, as mineral exports exceeded US\$640M and

catapulted it to become the main gold exporting company in Argentina.

The decision to merge has had consequences in Chile, where the dismissal of René Muga, number one of the dependencies was announced.

The executive management of the mining company will be cut and its responsibilities will be assumed by Marcelo Álvarez, director of the offices installed in Argentina.

The personnel cut, which would not be limited only to the executive director, aims to create a more agile organization with a less vertical structure.

The decision suggests that Chile would be losing prominence within the company's plans and Argentina would take its place. The company is keeping open the possibility to advance with the Lama project together with the Chinese company Shan-

dong, a company with which it already develops the Veladero deposit. In regards to Chilean assets, uncertainty reigns. The Superintendent of Environment (SMA) ordered the final closure of Pascua Lama, and 50% of Minera Zaldívar could be the first asset to be negotiated, while the new company could sell the 50% of Norte Abierto given the entry of Newmont. Currently, the mining company is carrying out the closure of the El Indio mine, where it also developed the Alturas prospect.



Barrick