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Investors look for financial restraint as good times roll for gold miners

JOSH O'KANE

With Canada's biggest gold miners back in the mode of making deals and striking partnerships, analysts will be watching the companies' self-discipline as first-quarter financials start rolling in.

Last year was a period of recovery for gold producers: balance sheets got better, gold prices were healthy and rising and share prices climbed. The S&P/TSX global gold index went up 50 per cent in 2016, and it's up another 12 per cent so far this year.

In the past, strong gold markets have led to a round of mergers, acquisitions and mine-building, followed by a painful reckoning. Investors haven't forgotten, so free cash flow, cost savings and debt reduction remain in their sights as precious-metal miners mull new projects in their march out of the commodity slump.

The industry's poster child for irrational exuberance was Barrick Gold Corp., which burned billions of dollars with the $7.3-billion cash purchase of Equinox Minerals Ltd. in 2011. Barrick's Toronto-listed shares, once worth about $55, fell below $8 a couple of years ago as the magnitude of its errors became apparent to the market. (They've since rallied to near $26.)

In this cycle, the deal making has been more sober and cautious. Typical was last month's announced deal between Barrick and Goldcorp Inc., the country's two biggest gold miners, which said that they would join together to consolidate gold-mine development in Chile's Maricunga Belt. It's a complex, multistage transaction that also involves Kinross Gold Corp. and a junior mining company, but the result is that Barrick and Goldcorp will be partners in northern Chile, a move the companies said would help them split capital and operating costs while sharing infrastructure.

It's a busy week for Canada's big resource companies, with Barrick, Goldcorp and other gold miners reporting first-quarter results, joined by other mining outfits, including Teck Resources Ltd. and Potash Corporation of Saskatchewan Inc.

The gold industry "is definitely in a better position than it was in 2015," said ***Siddarth Subramani***, mining analyst with ***Veritas Investment Research Corp,*** in an interview. "What I'll be looking for is operating discipline," he continued, keeping an eye on cost- and debt-reduction programs – like Barrick's plan to reduce its debt by $2.9-billion (U.S.), to $5-billion, by the end of next year.

Barrick will report its financials after markets close on Monday and is holding its annual general meeting on Tuesday.

In a research note, BMO Nesbitt Burns Inc. analyst Andrew Kaip and his team said mergers and acquisitions are expected to play a big role in earnings conference calls for the sector. "Asset sales and partnerships continue to remain topical for Barrick," BMO's analysts wrote.

On top of its joint venture with Goldcorp, Barrick this month announced a nearly $1-billion (Canadian) deal with Shandong Gold Group Co. Ltd. that will give the Chinese company 50-per-cent of Barrick's Veladero mine in Argentina, among other benefits.

That announcement came shortly after the third cyanide-solution incident in two years at the site prompted Argentine officials to request the mine suspend operations. Analysts will be keenly watching for an update.

Goldcorp on Wednesday will reveal its first-quarter results. The company announced its aggressive "20/20/20" five-year growth program in January, aiming for 20-per-cent increases in both production and gold reserves and a 20-per-cent cut to all-in sustaining costs.

Mr. Subramani said that compared to major-producer peers Barrick and Newmont Mining Corp., Goldcorp's growth pipeline is strongest, with the most options to increase production over the next five years – though its ability to fund such projects with cash on hand has diminished slightly, because of recent deals.

Deutsche Bank Securities Inc. analysts, who have a "hold" rating on Goldcorp, are more skeptical: "We await operational delivery and predictability following a challenging 2016," they wrote in March.

The company is aiming for growth in part through partnerships such as its joint venture with Barrick, and a similar one with Vancouver-based, diversified miner Teck in Chile in 2015.

Following a better-than-expected profit in the fourth quarter of 2016, Teck will release first-quarter financials on Tuesday. Recovering from the commodity price slump, Teck's share price has increased nearly six-fold since the start of 2016, and the company has been rapidly retiring its debt; in the 15 months ending Dec. 31, 2016, the value of outstanding notes shrunk to $6.1-billion (U.S.) from $7.2-billion.

Analysts are now curious about a potential dividend increase, which in December chief executive Don Lindsay suggested to Bloomberg could happen this month. Teck, like Barrick, had to make a severe cut in its dividend to get through a debt squeeze; the former's semi-annual payout was cut from 45 cents per share (Canadian) to just 5 cents.

With a stronger balance sheet and lowered spending at the Fort Hills oil sands project as construction nears completion, Teck "is positioned to shift its focus toward revisiting its dividend policy and growth opportunities, namely the QB2 copper project," wrote TD Securities Inc. analyst Greg Barnes in a March research note. (QB2, or Quebrada Blanca Phase 2, is a project aiming to expand production at the Chile-based copper mine.)

Potash Corp. will also report first-quarter financials Thursday morning. With an oversupplied global market, the company has been grappling with low potash prices – receiving $157 a tonne in the fourth-quarter of 2016, compared with $238 a year earlier.

But the potash company has suggested its forthcoming merger with Calgary's Agrium Inc., slated to close this summer, could generate up to $500-million in synergies annually. And in a research note last week, Andrew D. Wong of RBC Dominion Securities Inc. said that steady global demand and improved market fundamentals for the fertilizer producer should help give the company a boost.

"We expect to see improving free cash flow as the potash market gradually recovers and capex investments are essentially completed," he said.

Related companies reporting on the Toronto Stock Exchange next week include Agnico Eagle Mines Ltd., AuRico Metals Inc., Cameco Corp., Capstone Mining Corp., Detour Gold Corp., Eldorado Gold Corp., Excelsior Mining Corp., First Quantum Minerals Ltd., Hudbay Minerals Inc., IC Potash Corp., Lundin Mining Corp., Nevsun Resources Ltd., New Gold Inc. and Teranga Gold Corp.