

Aussie miners take on the world

John Synnott | April 02, 2008

AUSTRALIAN gold mining companies are popping up all over the world as they look further afield for that lucky strike.

The global push has brought a new lease of life to the industry and offers new opportunities to investors.

It can also be a risky and politically dicey business and some companies are getting in all sorts of trouble with big holes in the ground and big money committed to them. But stockbrokers in Perth say there is a feeling the local gold sector is tired and fully priced, with all the action having moved overseas.

So look out for the cocky Aussie geologist staking out the Kokoda Trail, or talking tough to the Thai Government for suspending the renewal of mining leases of the Australian gold miner Kingsgate Consolidated (KCN).

In the Philippines, villagers, supported by Oxfam Australia, accused Oceana Gold (OGC) of intimidating them to get a mine approved.

Perth stockbrokers Argonaut recently noted that the Australian gold market was last year littered with casualties because of rising costs, overestimation of resources and geopolitical and operational problems here and overseas.

For bad news, it was difficult to beat Emperor Mines (EMP), which was hit with everything bar the kitchen sink.

Yet there are plenty of success stories and Australian expertise and a sense of adventure looks like paying off in two rolled-gold projects set to start this year. Centamin in Egypt and Mundo Minerals in Brazil and Peru are top picks of mining analyst Gavin Wendt, from research newsletter Fat Prophets.

The rags-to-riches romance of finding gold in the desert lives on in the story of Aussie migrant Sami El-Raghy, founder of Centamin. A geologist from Alexandria in Egypt, he came to Australia 40 years ago and struck it lucky from the start.

He landed a good job in Perth with US mining company Asarco, working all over Australia. He was instrumental in the discovery and development of a number of gold mines, including the Wiluna gold mine for Asarco and the Mt Wilkinson gold mine for Chevron Exploration.

On a return visit to Egypt in 1994 he went to the department of mines and noticed on the wall a 3000-year-old papyrus map of the pharaohs' mines. Ancient Egypt was legendary for its gold as the golden masks from the tomb of Tutankhamun attest.

"We went to the Eastern Desert, no one was working there and there was a hill made out of porphyry, mineralised, and I realised it could be a major deposit," he says.

"We did our geology and geo-chemistry, started drilling and the first attempt turned out to be one of the major gold discoveries in the world."

Eleven years later Centamin Egypt Ltd got off the ground. In 2005 they gained a 160sqkm lease over the Sukari Hill gold project, covering six Pharaonic gold mines of 66 in the Red Sea Hills area. El-Raghy hurdled archaic Egyptian mining laws and raised money from local investors.

"I approached stockbrokers and others and got money in small amounts but in Australia investors did not want to invest in resource projects overseas. Then they preferred Kalgoorlie; now things have changed. Other areas of the world are relatively unexplored and Australian companies are more aggressive in going after them," he says.

As prospects firmed up, the company went to the London and Toronto stock exchanges (Canadian investors are more bullish on resources, more patient and more risk tolerant) to get more money for the project, diluting the Australian ownership.

This month the company is reporting large reserves of 11 million ounces and yields that have Perth mining analysts impressed.

"We expect to be drawing out the gold by the end of the year," El-Raghy says.

They argue the project could be the start of something big for Egypt's fledgling mineral extraction industry. El-Raghy and his son Josef, who is chief executive officer, are already worth more than \$115 million and he thinks the shares are not fully priced.

Faith that South America would be a new frontier like Australia in the 1970s looks like paying off for Perth based Mundo Mining when it starts production within months.

"We are happy with Brazil and Peru, which have good prospects but are relatively unexplored. You can get drill rigs and equipment to get things done, and the bureaucracy helps you, doesn't hinder you," says CEO John Langford.

The company was attracted there by an expert Australian team of geologists with experience in South America who have a significant shareholding in the company.

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Mundo bought a proven gold reserve and is attracted by the size of Brazil's Archean Shield, the geological structure where gold is found, which is 2.5 million sqkm in size compared with 1.2 million sqkm covering Australia's gold reserves.

Compared with Australia, where 10 times more money has been spent looking for the mineral, Brazil is relatively unexplored.

Mundo is targeting mid-sized, low-cost, multiple gold projects to ensure a sustainable production and profit flow. Mundos Engenho gold project near Brazil's third city is about to start mining a massive resource of up to 3 million ounces over 10 years.

The Torrecillas gold project in Peru is entering the feasibility stage and promises 50,000 ounces of gold per annum.

Engenho was built for \$13 million, 21 per cent below previous expectations thanks to tight management of the construction process and favourable operating conditions in South America. It's an impressive feat when rising mining costs are a big issue in the global gold industry.

The project is shooting to be a serious producer of 250,000 ounces of gold a year in four to five years.

Langford is an industry veteran from project corporate finance and a director of the company that owns the Diggers and Dealers Mining Forum held annually in Kalgoorlie. Among local explorers he likes West Australian miner Integra, whose share price has quadrupled in the past year. "When the gold market is moving like this, it is better to be a producer than an explorer," Langford says.

Research from Argonaut found last year that gold explorers turned in a better performance than gold producers and developers among its preferred stocks. It is currently keen on gold producer Troy Resources (TRY), developer Avoca Resources (AVO) and explorers Gryphon Minerals (GRY) and Cortona Resources (CRC).

Macquarie Equities likes gold in this environment given supportive supply-demand fundamentals and the perceived hedge that it offers against US dollar weakness and inflation. Its key picks include Lihir Gold (LHG), Sino Gold (SGX), St Barbara (SBM) and Oceana Gold (OGC). But Newcrest, Australia's largest gold miner, still looks expensive, despite recent falls in line with the gold price.

Tim Barker, an analyst with the veteran managed investment trust BT Natural Resources Fund, has been happy with its fund gold picks Avoca and Equigold (EQI), the latter recently in receipt of an attractive takeover from Lihir.

Equigold is producing gold in Australia and has a feasibility study into the Bonikro deposit in the Ivory Coast in darkest west Africa.

Barker reckons risks in such exotic locations mean prospects are not fully priced, so investors can get foreign assets at a discount.

Resource Capital Research's recent gold company review says the bullish gold price has been creating new production opportunities in both historic and new gold districts and is expected to drive takeover activity. At the junior end of the stock market, it favours companies with a solid cash position, near-term exploration news flow and project development milestones.

Among producers it likes companies with a rising production profile from projects where cost pressures are contained.

Emerging West Australian producers and development-stage companies offering leverage to the gold price include Monarch Gold (MON), Apex Minerals (AXM), Dioro Exploration (DIO), Norton Gold Fields (NGF), Navigator Resources (NAV), Silver Lake Resource (SLR), Regis Resources (RRL), Emperor Mines (EMP) - after its merger with Canada's Intrepid Mines (IAU) - and Crescent Gold (CRE).

High-grade, narrow-vein gold-style mineralisation projects offering leverage to the gold price and exploration success include those owned by Andean Resources (at Cerro Negro, Argentina), Mutiny Gold (at Cassilis in Victoria) and YTC Resources (at Mt Baldry, NSW).