



Issue 490

18<sup>th</sup> January 2023

# Metals Focus

## Precious Metals Weekly

### Gold

Gold remains supported at around the \$1,915 level, as the dollar trades at close to 9-month lows.

### Silver

Fortuna Silver Mines silver production declined by 12% y/y in Q4.22 to 1.7Moz, while the full year output fell by 8% y/y to 6.9Moz.

### Platinum

Net managed money longs on NYMEX rose to 1.2Moz, nearly an 11-month high.

### Palladium

EU passenger car registrations grew by 12.8% y/y in December to 897k units, while the 2022 total declined by 4.6% y/y to 9.3m units.

## Subdued Gold Mining M&A in 2022

Over the last 10 years mergers and acquisitions worth more than \$120bn have taken place in the gold mining sector. Acquisitions have enabled producers to strengthen and sustain production growth, while the disposal of non-core assets has allowed producers to focus on mine expansions and development of other projects more aligned to their corporate strategy. Junior companies that were struggling to raise capital funding seized the opportunity to either sell assets or enter into joint-venture agreements with major producers. More recently, targets within more favourable geopolitical locations, i.e. those with perceived lower risk, have become the most attractive.

However, deal activity slowed in 2022, with only 71 completed. The total value of the transactions completed declined significantly, by 86% y/y, to \$2.5bn. Of those announced, 87%, valued at \$8.9bn, are still pending, and are expected to be concluded within the next two years. In terms of value, China led the way with completed deals worth \$560m in 2022. Australia and Russia followed, totalling \$470m and \$340m respectively.

Looking at some of the deals in more detail, in October, Zijin Mining announced a proposed acquisition of a 30% stake in Shandong Ruiyin. Shandong Ruiyin wholly owns the offshore Haiyu Gold mine. This has an estimated gold resource of 526t, with an average grade of 4.2g/t. It is expected to come online in 2025 and has a mine life of 23 years. To further diversify its production portfolio, Zijin also announced a definitive agreement with IAMGOLD to purchase IAMGOLD's



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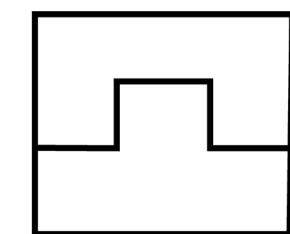
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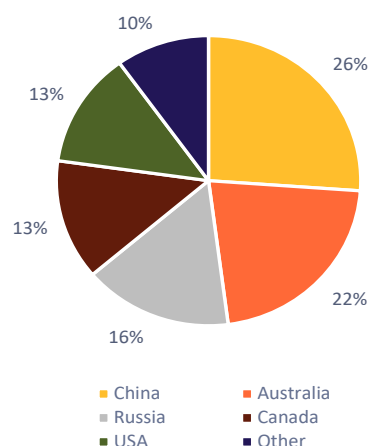
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## Top M&A Destinations, 2022



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95% interest in Rosebel Mine, Suriname for \$360m. In November Zijin announced the purchase of a 20% equity share in Zhaojin Mining valued at \$447m. This deal will lift Zijin's attributable annual production to 4t per annum.

Following the Russian invasion of Ukraine in February 2022, Kinross suspended its operations and development activities in Russia in order to adhere to international sanctions. Subsequently, the company divested all its Russian assets, including Kupol and the Udinsk project, to Highland Gold for \$340m in cash. Highland Gold then sold the Udinsk project on to Polyus for \$140m. Sanctions also led to Petropavlovsk defaulting on loan repayments to Gazprom Bank, its principal lender, and sole buyer of its gold doré and concentrates. Gazprom Bank demanded full repayment of its loans forcing Petropavlosk into administration. As part of this process the Russian operations and subsidiaries were sold to Ural Mining and Metallurgical Company for \$398m in cash and notes.

In Q4.22, AngloGold Ashanti concluded the purchase of the Sterling and Crown Projects in Nevada from Coeur Mining for \$150m in cash. The purchase strengthens AngloGold Ashanti's foothold in the Beatty district of Nevada, following its Q1 purchase of Corvus Gold. The company is focused on developing the Beatty district and anticipates, pending feasibility results and permitting, that the district will provide 9t per year by the end of the decade.

Another notable deal, although not by a primary gold producer, was the Rio Tinto acquisition of the remaining 49% stake of Turquoise Hill for \$3.1bn in cash. Rio Tinto now has a direct 66% ownership of Turquoise Hill's Oyu Tolgoi mine in Mongolia. Oyu Tolgoi is a primary copper mine that produces a significant amount of by-product gold. The estimated annual gold production is between 4.7-5.3t for 2022.

In December, St Barbara announced a merger with Genesis Minerals in an all-share deal valued at \$367m. This will result in the consolidation of the Leonora assets in Western Australia. The company will divest its Atlantic gold operations and other non-Leonora assets to form Phoenician Metals in order to concentrate on developing Leonora. IAMGOLD announced the sale of its 90% interest in the Boto Gold Project and related subsidiaries to Managem for \$282m in cash. The proceeds will be used to fund the ongoing construction of the Côte Gold Project. IAMGOLD also amended its joint-venture agreement with Sumitomo regarding the capital funding for the construction of the Côte Gold Project. Sumitomo will contribute up to a maximum of \$340m to cover monthly cash calls for the remainder of construction. For each cash call that Sumitomo covers, IAMGOLD will transfer an ownership interest in the project to Sumitomo, up to a maximum



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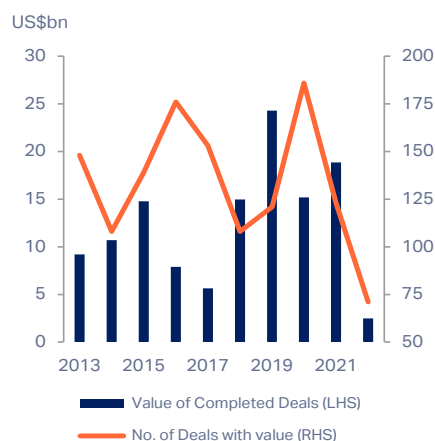
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## M&A Deal Value



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of 10%. IAMGOLD has a repurchase option which it can exercise between 2023 and 2026 to retain its 70% ownership of the project.

The largest pending deal in 2022 was the proposed acquisition of Yamana Gold. In May 2022, Gold Fields entered into an agreement to acquire Yamana Gold in an all-share transaction valued at \$6.7bn. Shareholder opposition sent Gold Fields' share price tumbling, lowering the valuation of the deal to around \$4bn. In November, Agnico Eagle and Pan American Silver outbid Gold Fields with a counter offer of \$4.8bn which Yamana's board regarded as a 'superior proposal.' Gold Fields subsequently terminated its transaction which triggered a \$300m termination fee from Yamana. On completion of the deal, Yamana's Canadian assets will transfer to Agnico Eagle. Subsequently, Agnico Eagle will become the sole owner of the Canadian Malartic mine and the Wasamac project with a 59t resource. The South American assets will transfer to Pan American Silver leading to estimated cost savings from synergies of \$40-60m per year with Pan American's existing assets.

Record high gold prices lend themselves to high project valuations, a scenario which is not conducive to merger and acquisition activity. This is the likely driver behind the fall in deal activity in 2022. However, rising capital and operational costs, in addition to a lower gold price in the latter half of the year will have lowered valuations making potential deals more attractive. We expect the squeeze on profit margins will continue to have an impact on valuations in 2023 and this, in addition to the need to add growth opportunities to depleting resource profiles, will lead to increased mergers and acquisition activity in 2023 and beyond.

## Agnico Eagle, Pan American and Yamana Properties



Source: Company Reports



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# Charts - Precious Metal Prices, US\$/oz

Gold



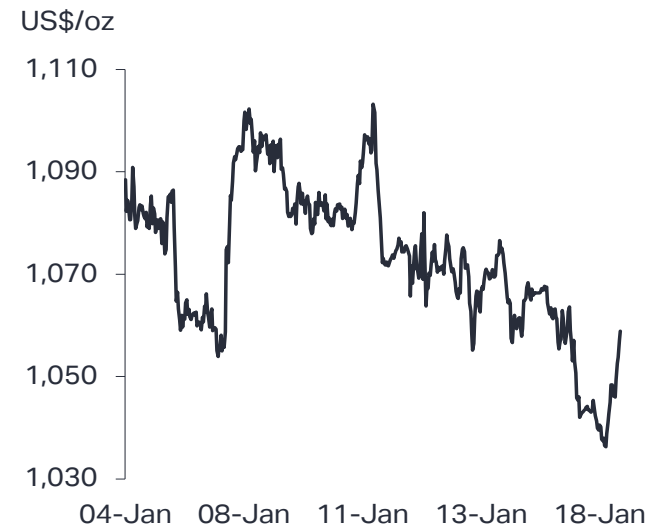
Source: Bloomberg

Silver



Source: Bloomberg

Platinum



Source: Bloomberg

Palladium



Source: Bloomberg







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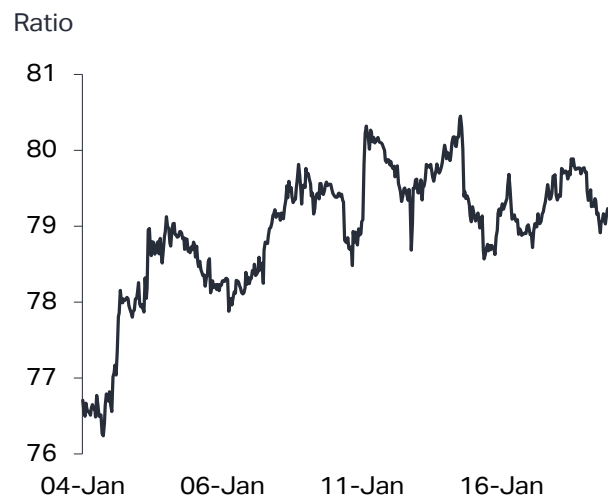
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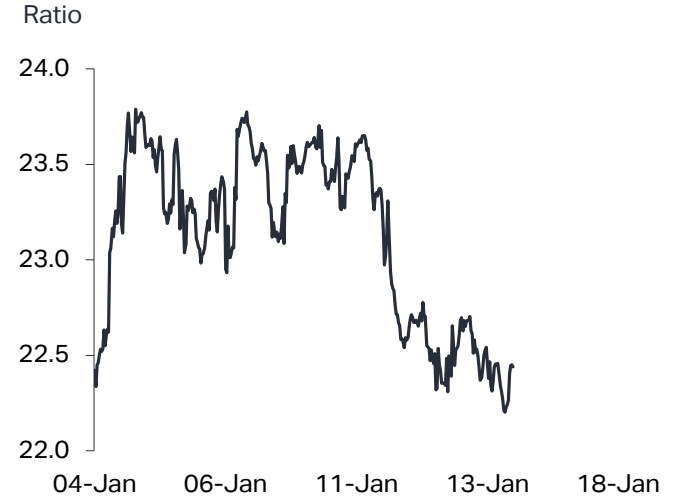
# Charts - Ratios & Spreads

Gold:Silver Ratio



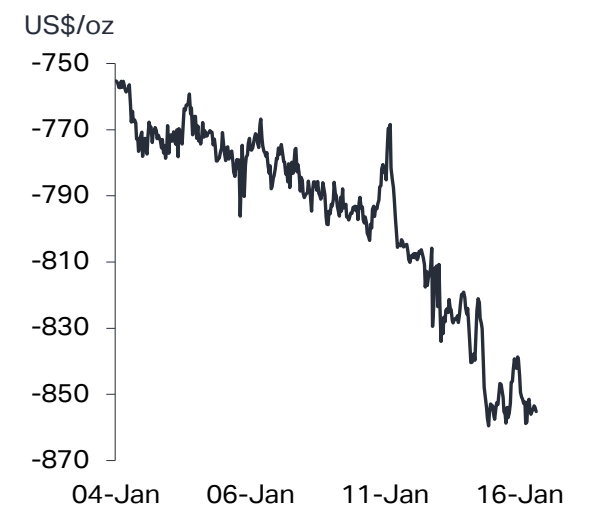
Source: Bloomberg

Gold:Oil (Brent) Ratio



Source: Bloomberg

Platinum-Gold Discount, US\$/oz



Source: Bloomberg

Platinum-Palladium Discount, US\$/oz

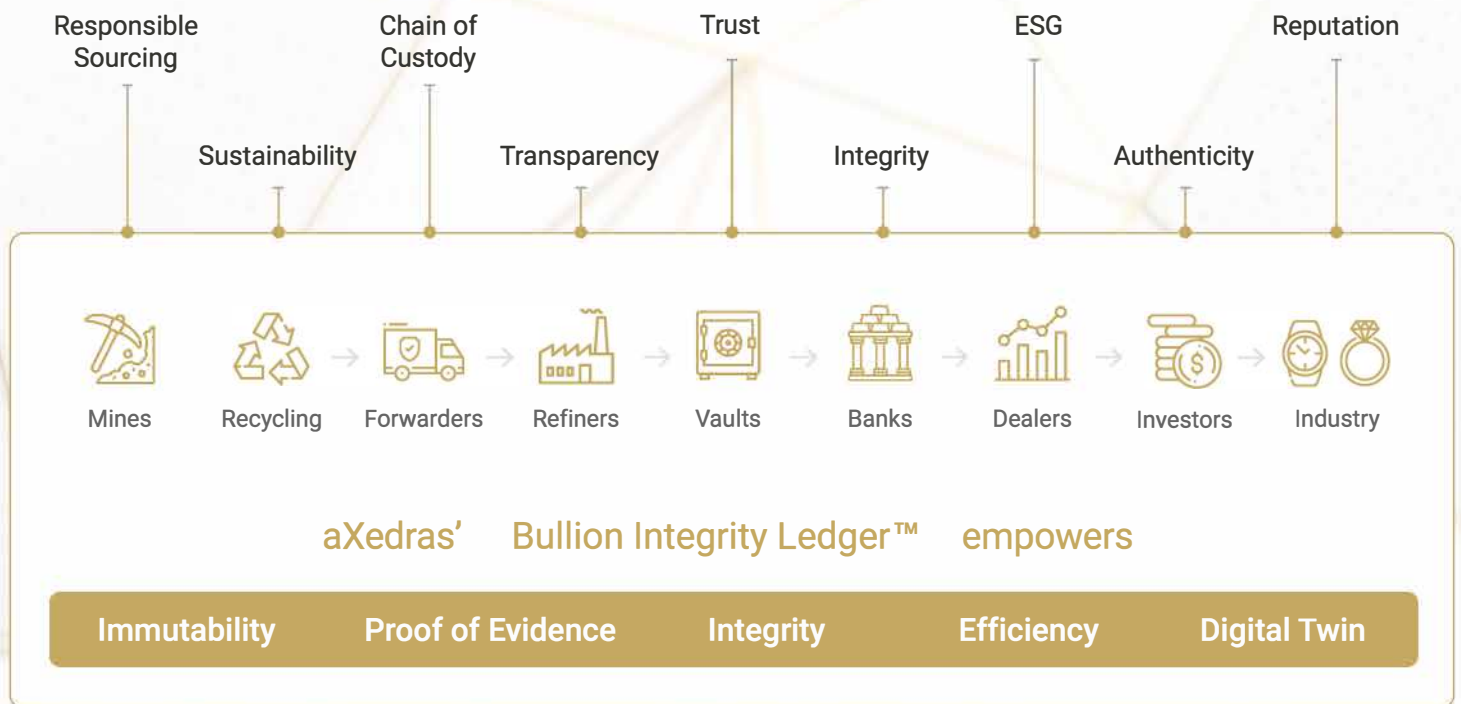


Source: Bloomberg





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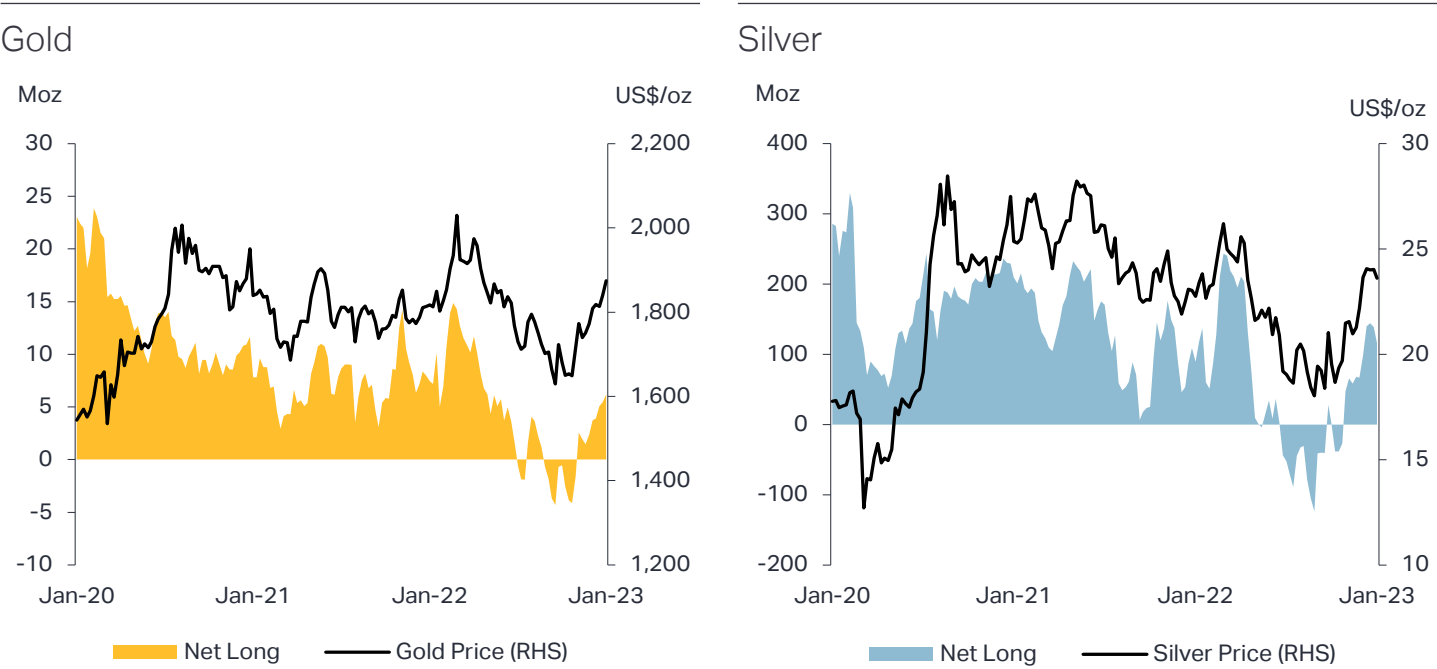


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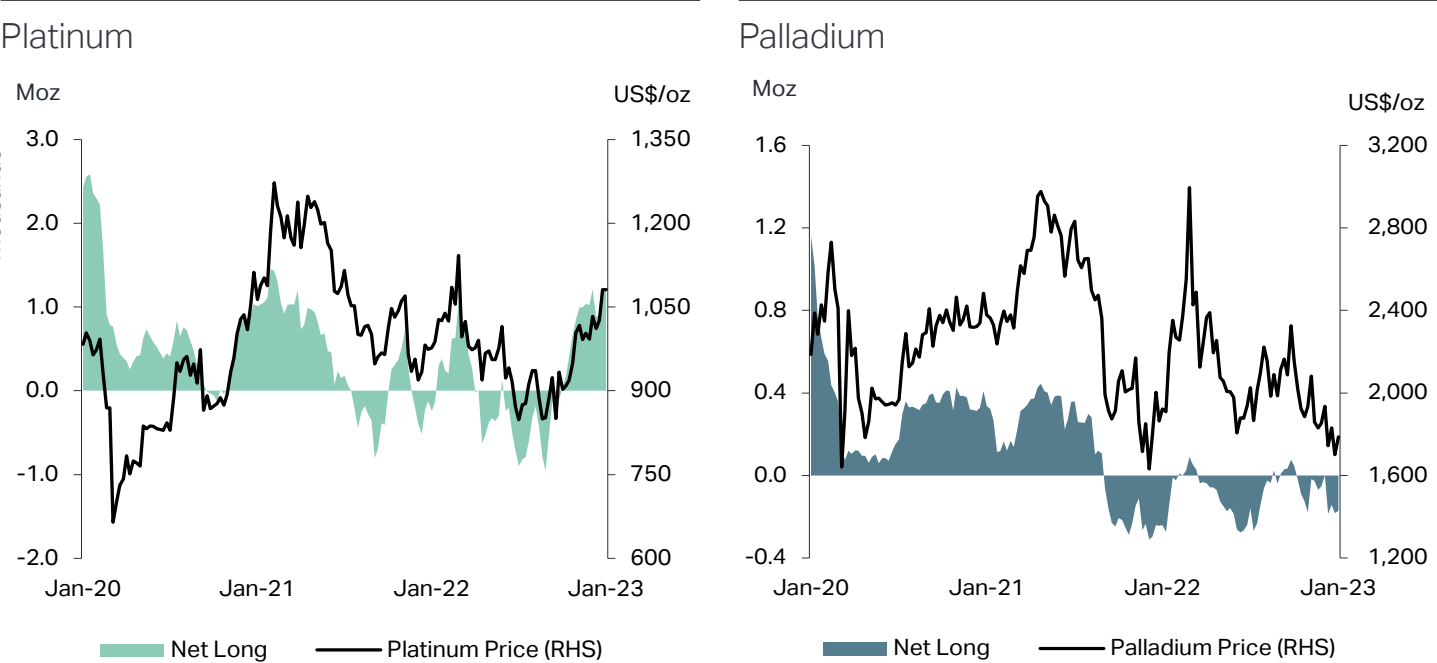


# Charts - CME Futures Net Positions\*



\*Managed money positions; Source: Bloomberg

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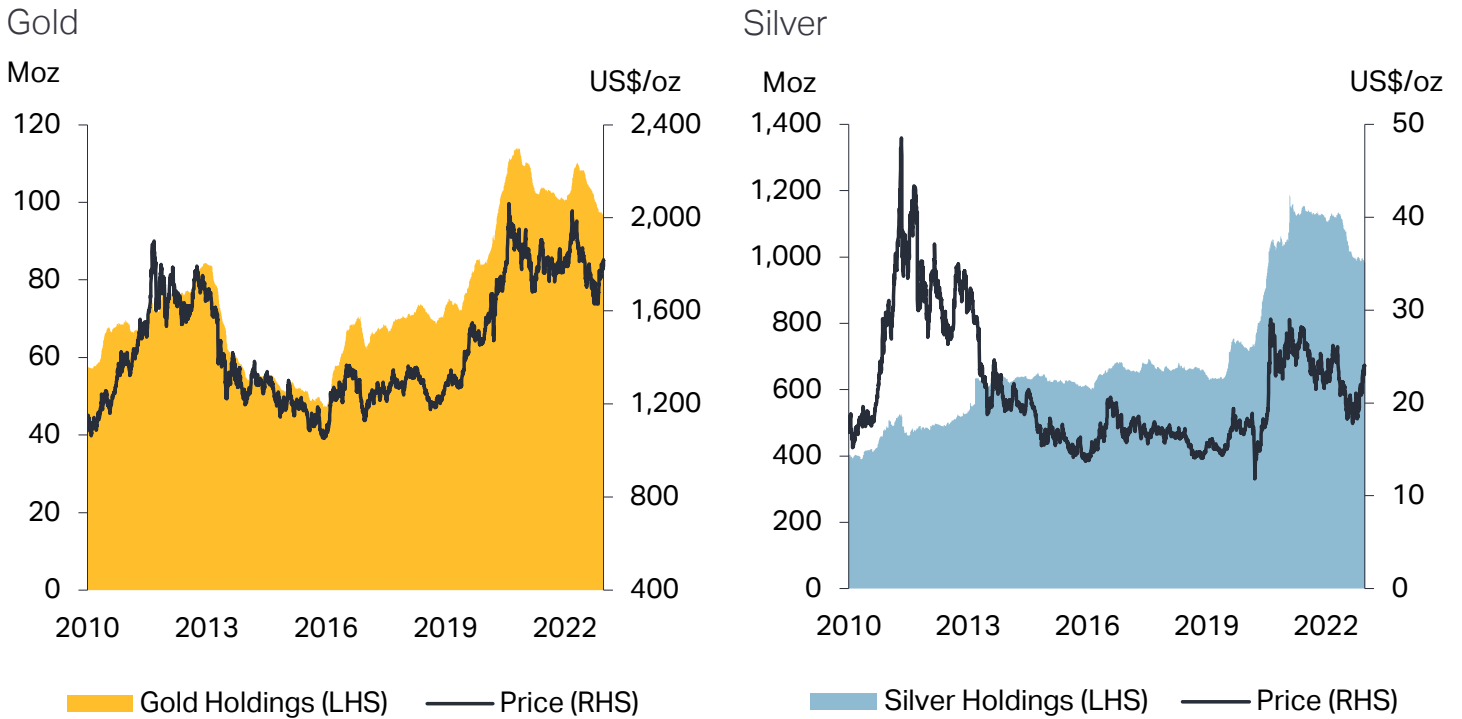
\*Managed money positions; Source: Bloomberg

\*Managed money positions; Source: Bloomberg



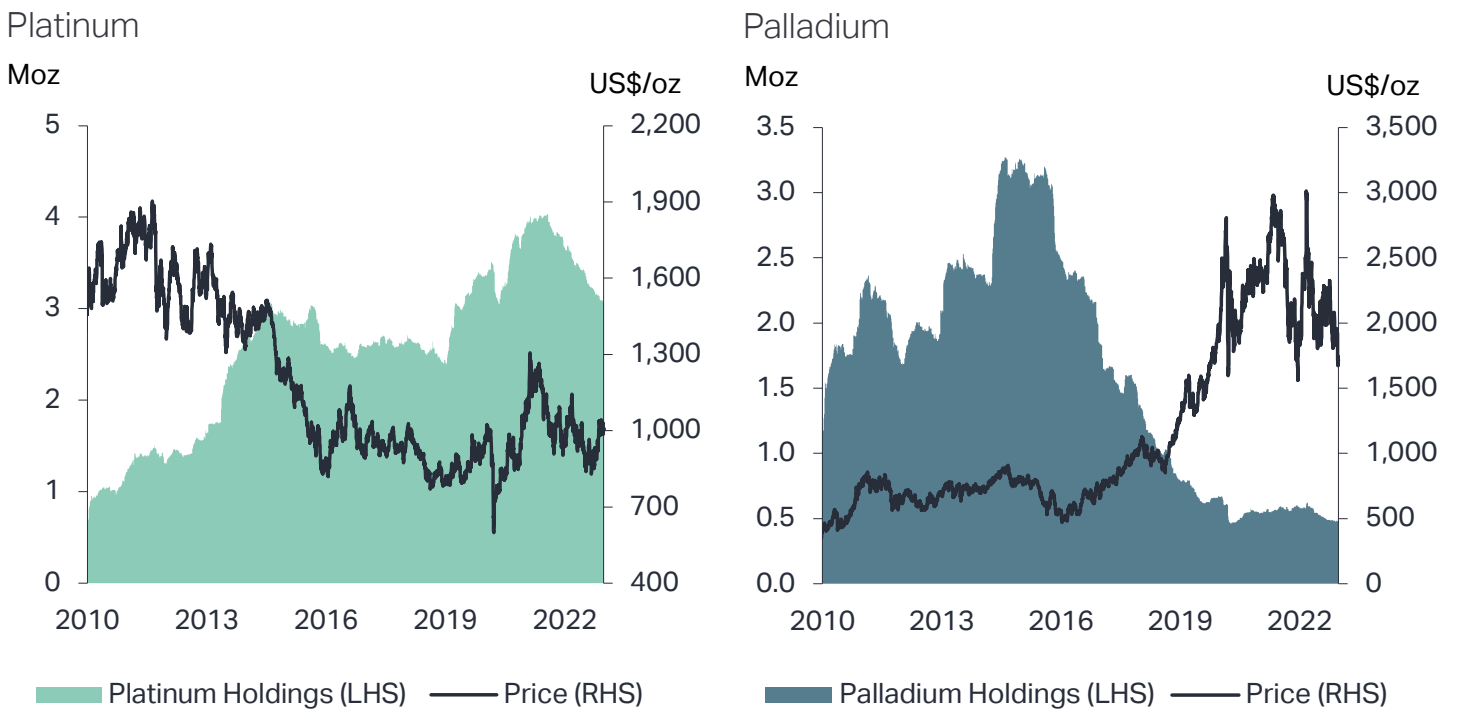


## Charts - ETP Holdings



Source: Bloomberg

Source: Bloomberg



Source: Bloomberg

Source: Bloomberg

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