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Australian gold miners enjoying $500 an ounce margins

BARRY FITZGERALD THE AUSTRALIAN SEPTEMBER 11, 2015 12:00AM

Dacian Gold exploring at Mt Morgans near Laverton in WA. Source: Supplied

There has been good money made in the gold space of late which should not come as a surprise given the $500 an ounce margins that most of the local industry is enjoying.

The big performers have been Northern Star (NST) and Evolution (EVN), which are 40 per cent and 68 per cent higher respectively in the past 12 months, albeit with a lot of help from their merger and acquisition activity.

But underpinning the broader return of investor interest in the sector, when the US dollar gold price has been less than helpful, has been the Aussie dollar-gold story.

The local price is as strong as the local producers could wish for at $1589 an ounce. It is a now well-understood story and has got analysts working overtime divining which of the ASX-listed gold stocks could be the next to benefit.

On the basis that the established producers like the two mentioned above have run as hard as they have, the hunt by the analysts has been extended to the next best thing — companies with a sizeable resource and the ability to get into production in the near-term to capture the $500 an ounce margins on offer.

There are not a lot of them around, and this space has previously mentioned Gold Road (GOR) with its 5.5 million ounce Gruyere discovery 150km east of Laverton in Western Australia.

Today's interest though is something closer to Laverton, Dacian Gold (DCN) and its 3 million ounce-plus revival of Mt Morgans.

While the market has been on to the Gold Road story for a while now — it is a $257m company — the Dacian story is just emerging.

The stock was trading at 48c yesterday for a market capitalisation of $46m. That interest is building in its Mt Morgan story is reflected in no less than eight brokers now covering the stock, unusual for a company of its size.

The latest to initiate coverage of the stock — with a price target of 95c a share — is Canaccord. "In an environment where corporate interest in quality gold assets is highly competitive, Dacian's undeveloped Mt Morgans gold project is emerging as a standout in the Australian gold space,'' it said.

Euroz put an 85c price target on the stock in an August 20 note.

"We are increasingly seeing scope for a material, stand-alone operation at Dacian's Mt Morgans asset,'' the publicity-shy Euroz said.

Dacian only listed in November 2012 but the board and management are well known thanks to their previous lives at Avoca Resources, a $7m float in 2002 that was eventually taken over by Alacer for $1 billion.

Avoca enjoyed success because it correctly believed that modern exploration would prove that WA's historic mining centres have plenty more to give.

That has certainly proved to be the case at Mt Morgans where Dacian is planning to process 3g of gold a tonne-plus ore from a blend of underground ore and open-cut ore sources. First production could be possible in 2018 and a scoping study has just been kicked off.

Ahead of that, Canaccord has had a stab that a stand-alone operation costing $150m could produce an average of 180,000 ounces of gold annually for eight years at an all-in sustaining cost of $1000-$1100 an ounce.

Euroz reckons a $160m stand-alone development producing 190,000 ounces annually for 7 years at an all in sustaining cost of $954 an ounce is the go. It also estimated a 59 per cent internal rate of return on its gold price and exchange rate assumptions.

The keyword in both broker calls might well prove to be "stand-alone''.

To be sure, the economics of Mt Morgans look more than capable of supporting a stand-alone development.

But there is the chance that others will look at Mt Morgans as a bolt-on development opportunity. It is something Canaccord touched on.

It said that the potential for the eight-year mine life, together with a production profile approaching 200,000 ounces annually and a lower than average capital intensity pathway to development, meant Dacian was likely to be on the "radar of all the mid-cap gold producers looking to bolster midterm production.'' Funny thing there is that one of the most likely bidders would have to be South Africa's Gold Fields, which is a gold major — not a mid-cap.

Its Granny Smith/Wallaby operations are in the same neck of the woods and the company is on the record as saying it was looking for additional sources of ore to fully utilise processing capacity across its WA processing plants.

While the potential for a takeover from Gold Fields or whoever else is out there is a consideration, more importantl for Daician is the success it is having in building the stand-alone capability.

And besides, any offer would have to impress observers to win over the tightly held share register.

Anova Metals

A low-cost gold mine in the US can be of just as much interest to local investors as the Aussie dollar-gold production story, with an important proviso.

And that is that there must be an early and clear intention to turn dividends from US dollar mine surpluses into Australian currency paid dividends.

That’s what Anova Metals (AWV) intends to do with its near-term gold production opportunity, a restart of the Big Springs project in Nevada. It could start out next year for a capital cost of less than $US2m, reflecting Anova really just starting off where Freeport left off when the gold price was a truly miserable $US300 an ounce in the 1990s.

Also keeping costs low is a tolling agreement with the nearby Jerritt Canyon, a mine with a 20 year production history that was recently picked up by Canadian billionaire and super gold bull Eric Sprott.

A staged return to production at Big Springs kicks off from an open cut with forecast total cash costs of $US853 an ounce and year one output of 41,000 ounces.

Free cashflow will be used to fund expansion of the operations and provide a return to shareholders.

Board and management were involved with Exco, which apart from eventually being taken over by CopperChem, pulled in $175m from a Queensland copper asset sale to Xstrata, and a handy $68m from the small and short-lived White Dam gold mine development in South Australia.

The stock has been trading at 3.3c for a market cap of $11m.

Needless to say, followers of the stock are hoping for a repeat performance on the basis the guys can spot value.