



Issue 371

8<sup>th</sup> September 2020

# Metals Focus

## Precious Metals Weekly

### Gold

Slipped on a firmer US dollar, but a pull-back in global stocks helped to limit losses.

### Silver

After hitting a fresh record of 1,052Moz on 2nd September, ETP holdings have since eased back by 1%.

### Platinum

German new car registrations fell by 20% in August: new gasoline and diesel cars dropped by 39% and 27% respectively, while a surge in EV sales lifted its market share to a record 13.2%.

### Palladium

Chinese car sales rose for the second straight month in August, up by 8.8% y/y.

## Gold M&A value has declined this year, but is expected to increase as margins rise

Despite the rising gold price in 2020, market uncertainty caused by the COVID-19 pandemic has resulted in a reduction in the value of M&A transactions so far this year across the gold mining sector. Completed gold M&A in H1.20 of \$2.8Bn only accounts for 11% of the \$24.9Bn achieved over the whole of 2019. However, the number of completed transactions has been strong, with 131 deals completed in H1.20 compared to 176 over all of 2019.

This suggests that the market uncertainty has impeded larger M&A deals while the price surge has encouraged acquisitions of companies with smaller market capitalisation. This trend is highlighted when looking at the average deal values, which were \$196M in 2019 compared with just \$33M during H1.20. That said, there have been some high value transactions this year, such as Endeavour Mining's merger with SEMAFO, which was valued at US\$761M. However, the appetite for this size of deal appears to have fallen compared to recent years as companies have become more focused on mitigating the impact of COVID-19.

### Major gold M&A deals increasing in recent years

Since 2018, there has been an increase in high value M&A deals in the gold mining sector. The most significant of which were the Barrick-Randgold and Newmont-Goldcorp mergers in late 2018 and early 2019 respectively. The rationale behind these deals was similar, to build the business by combining these companies, keeping the best assets, selling less profitable assets and recognising cost savings through operational synergies. These deals took place at a time when the outlook for the gold price was far less bullish than



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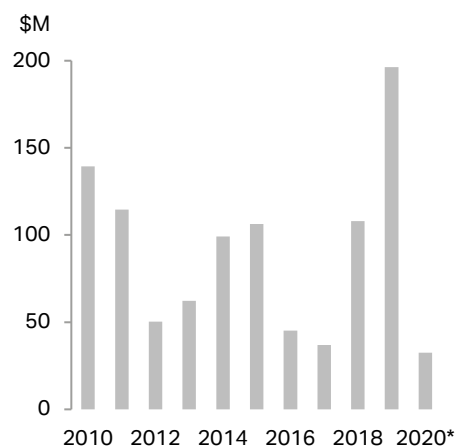
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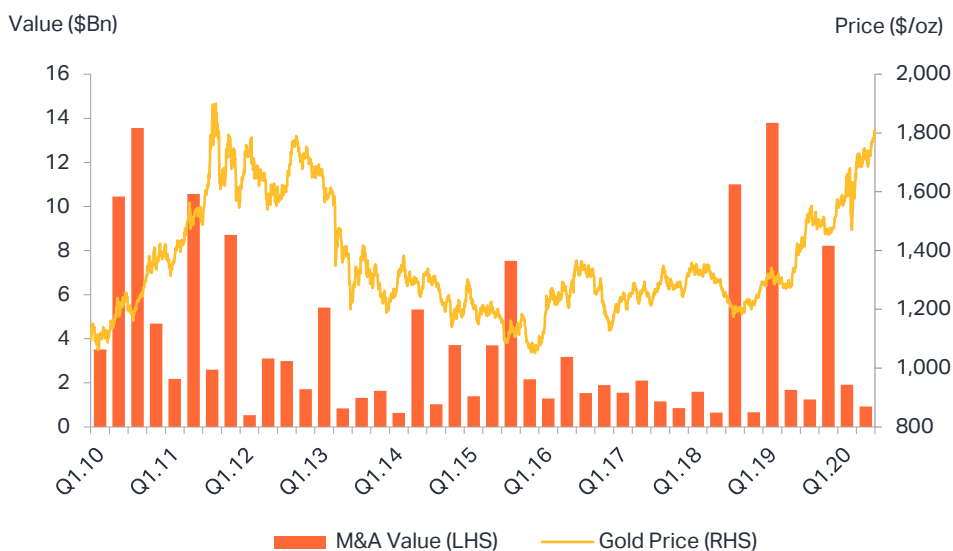
## Average M&A Deal Value



\*H1.20  
Source: Bloomberg, Metals Focus

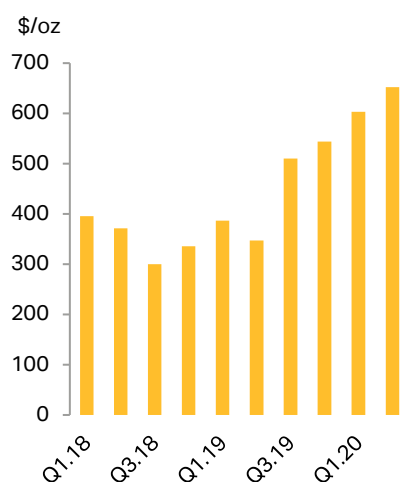
in the current market. Our latest forecast for the gold price, which can be seen in our [gold five-year](#) forecasting quarterly report, is for the full year average to reach a new high in 2021 and remain elevated the following year. This is an increase of more than \$500/oz compared to our January 2019 forecast for 2021. As such, when these deals were announced they were driven more by company strategy than market conditions.

## Gold M&A Value Drops in 2020 Despite High Price



Source: Bloomberg, Metals Focus

## Primary Gold Mine Margins\*



\*Difference between All-in-sustaining cost and gold price  
Source: Metals Focus Gold Mine Cost Service

### Market uncertainty curtails increasing M&A value

As gold prices began rising significantly from mid-2019 there was a glut of high value deals in Q4.19. In addition to many companies' rational, of building the business through acquisition of low cost/high margin assets, was strengthening balance sheets resulting from increased cashflow from higher gold prices; this allowed companies to pursue high value deals. Meanwhile, the value of producing companies and assets increased as a result of the improving outlook for gold prices.

Up until the end of 2019 a parallel could be drawn with the last gold bull market. The previous high point in the gold price came in 2011, with M&A values in the gold sector hitting an annual peak during the previous year of \$32.2Bn. The rising trend from 2018 in M&A has been curtailed by the COVID-19 pandemic, although the continued bullish run in the gold market is boosting margins and increasing cashflow for gold miners. Our latest [gold cost service](#), which was released this week, shows that margins in H1.20 for primary gold mines averaged \$628/oz, up by 71% y/y. These profits can be used to increase dividends, pay down debt, invest in existing projects or to grow the business via M&A.

As market uncertainty starts to ease it seems likely that gold miners will again look to deploy some of this additional cashflow to M&A. This will result in increasing numbers of high value acquisitions between producing companies.





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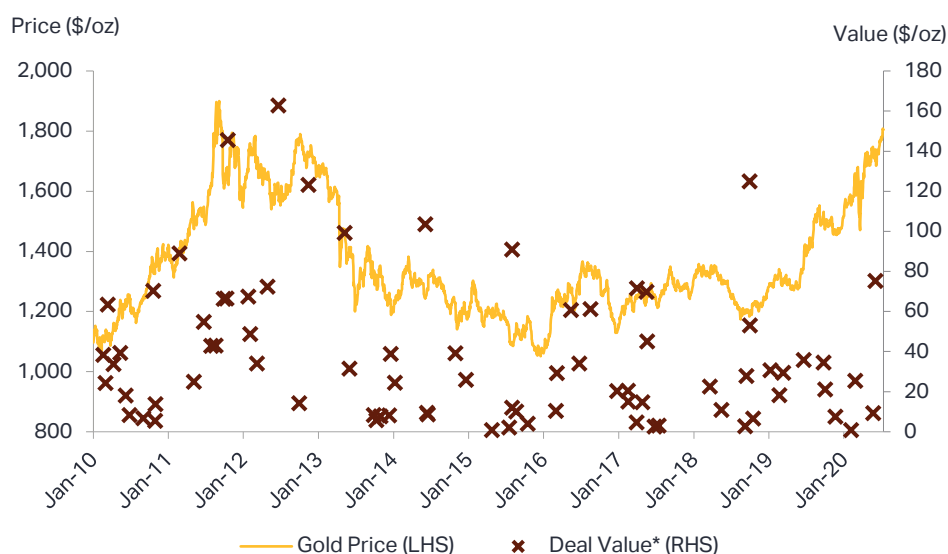
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The valuation of companies with producing mines will also be higher as these are directly leveraged to the trend in gold prices.

## Valuations of Early Stage Projects Compare to Gold Price



\*Deal value per equivalent ounce of gold in reserves and resources.

Source: Bloomberg, Metals Focus

### Number of deals for gold juniors to remain at high levels

The valuation of companies, with only early stage projects, is not highly correlated to the current gold price. Looking at the M&A deal value to gold equivalent ounces in reserves and resources over the last 10 years, involving companies that did not have producing assets, demonstrates this. This data exhibits little correlation with the gold price and significant variability over the time period with deal values ranging from US\$163/oz to less than US\$1/oz.

These companies are less leveraged to current gold prices as the projects they own, which range from early stage exploration to feasibility stage, will not likely be producing any gold until several years into the future. As a result the company valuations will be more dependent on the longer-term price outlook alongside other factors, such as the development stage of the project, category of resources and reserves, size and grade of the deposit, location and strategic importance to the acquiring company.

As a result, even with prevailing high gold prices, there may not be a significant increase in valuations of junior gold companies with development projects unless the acquiring companies are expecting higher gold price in the longer term. As mentioned earlier, we are expecting prices to remain strong over the next two years, however in our latest [5-year gold](#) forecasting report our base case scenario is for gold prices to weaken considerably by 2024. Despite its limited impact on the valuation of junior gold companies, the currently strong gold price will ensure the number of deals involving these companies remains elevated. This is because companies with producing mines now have increased available cashflow, due to higher prices, and will look to use this to acquire assets and strengthen their project pipeline.



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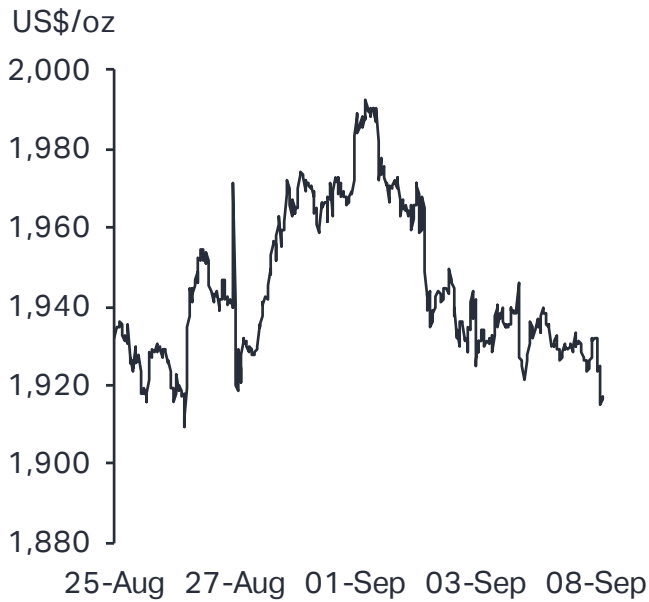
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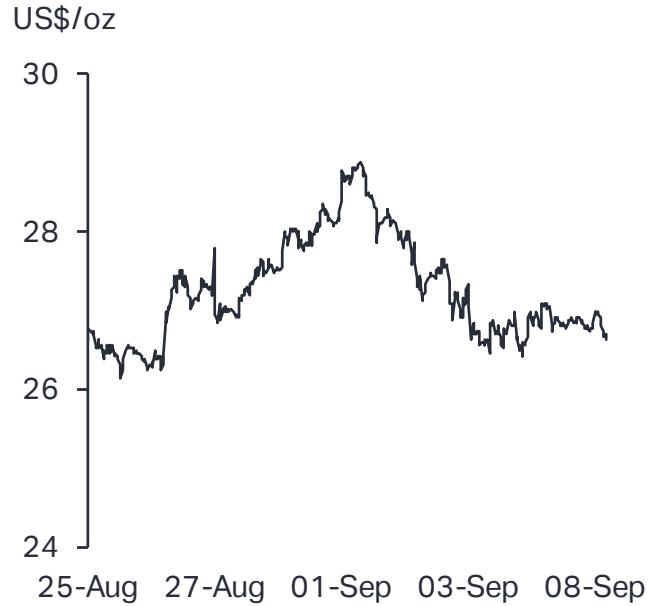
# Charts - Precious Metal Prices, US\$/oz

Gold



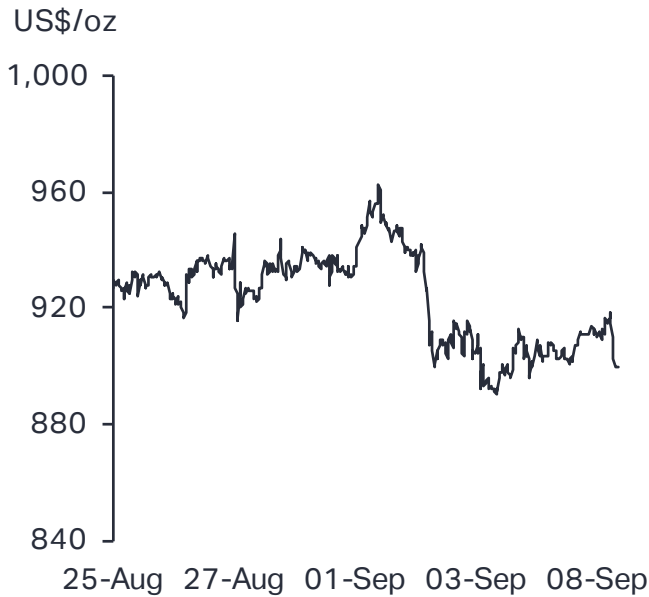
Source: Bloomberg

Silver



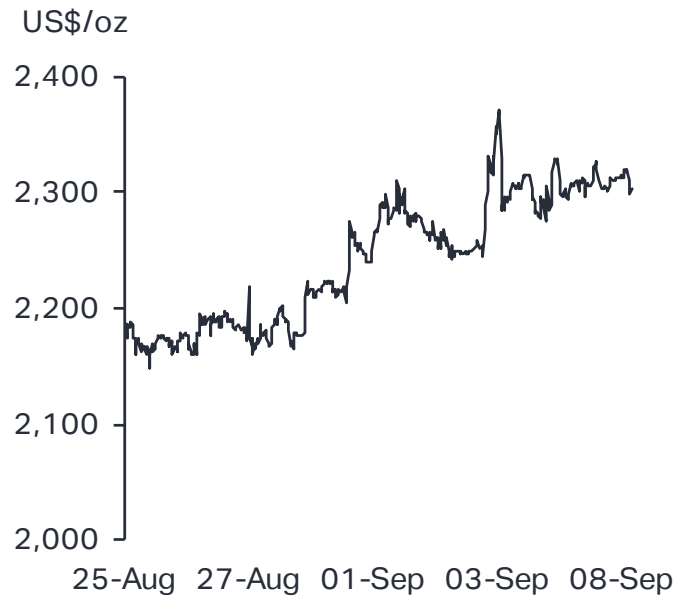
Source: Bloomberg

Platinum



Source: Bloomberg

Palladium



Source: Bloomberg



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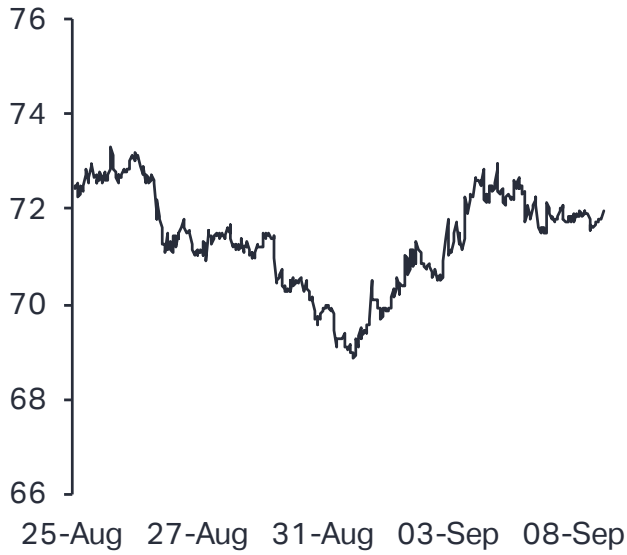
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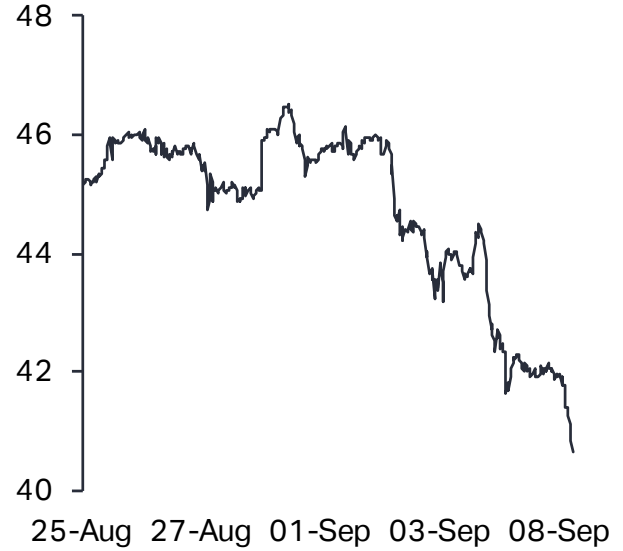
# Charts - Ratios & Spreads

Gold:Silver Ratio



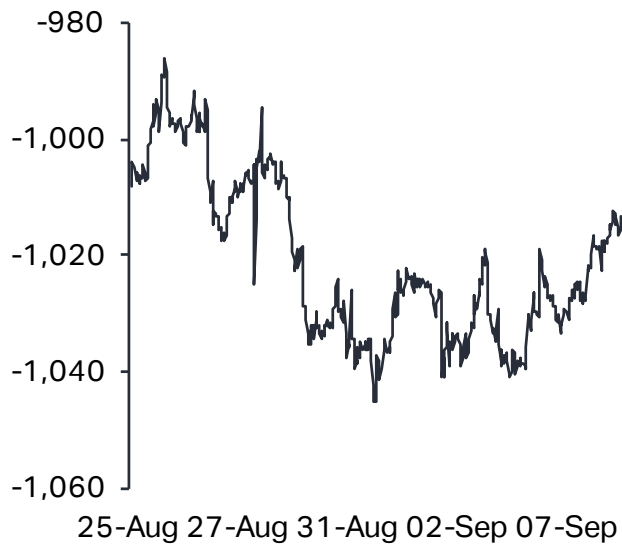
Source: Bloomberg

Gold:Oil (Brent) Ratio



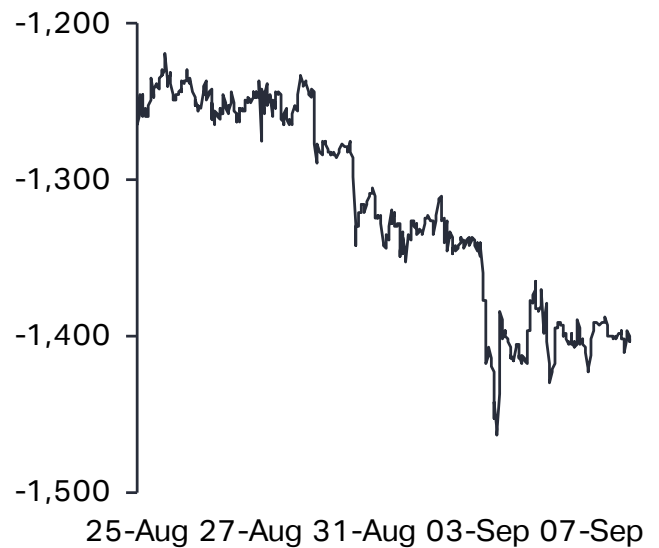
Source: Bloomberg

Platinum-Gold Discount, US\$/oz



Source: Bloomberg

Platinum-Palladium Discount, US\$/oz

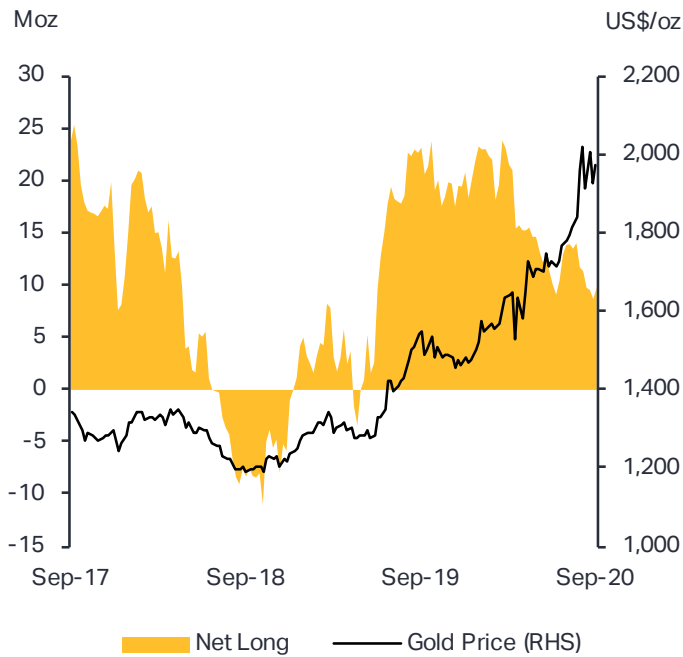


Source: Bloomberg



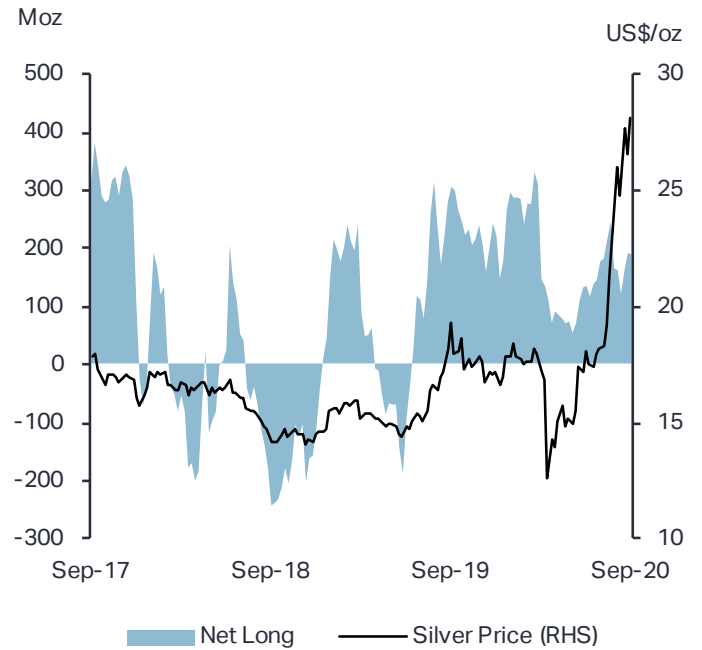
# Charts - CME Futures Net Positions\*

## Gold



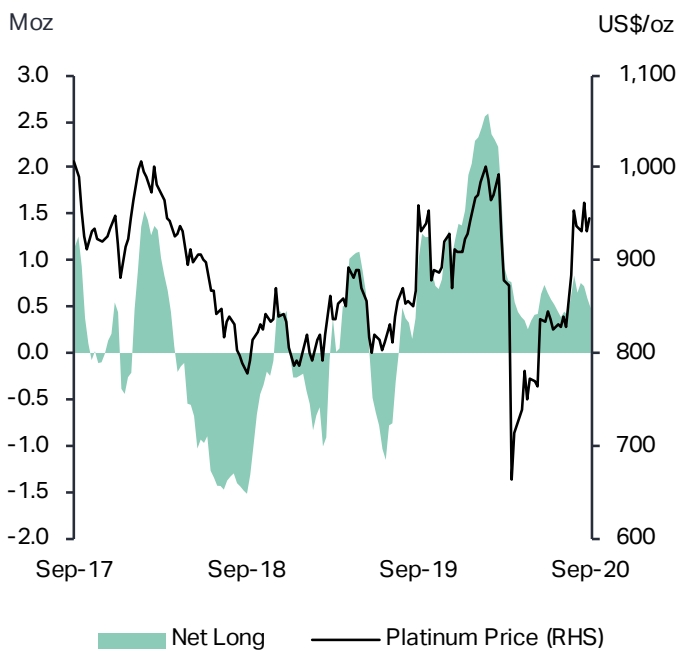
\*Managed money positions; Source: Bloomberg

## Silver



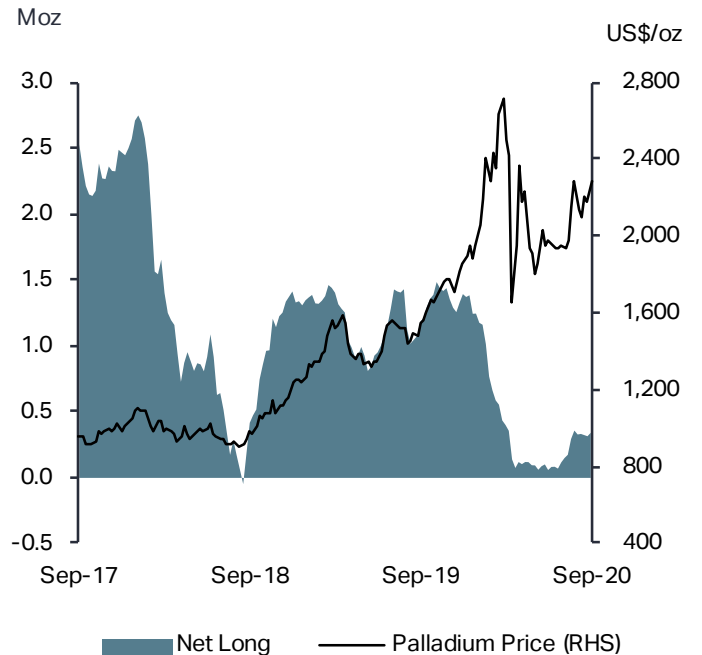
\*Managed money positions; Source: Bloomberg

## Platinum



\*Managed money positions; Source: Bloomberg

## Palladium

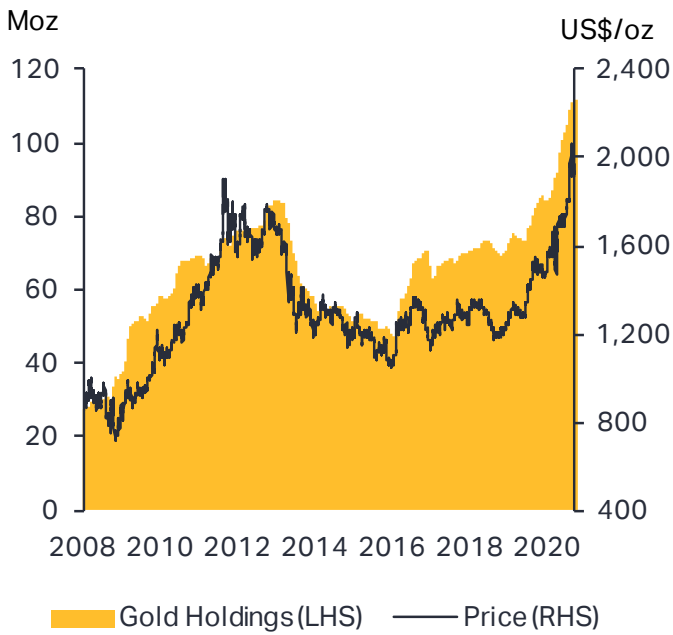


\*Managed money positions; Source: Bloomberg



# Charts - ETP Holdings

## Gold



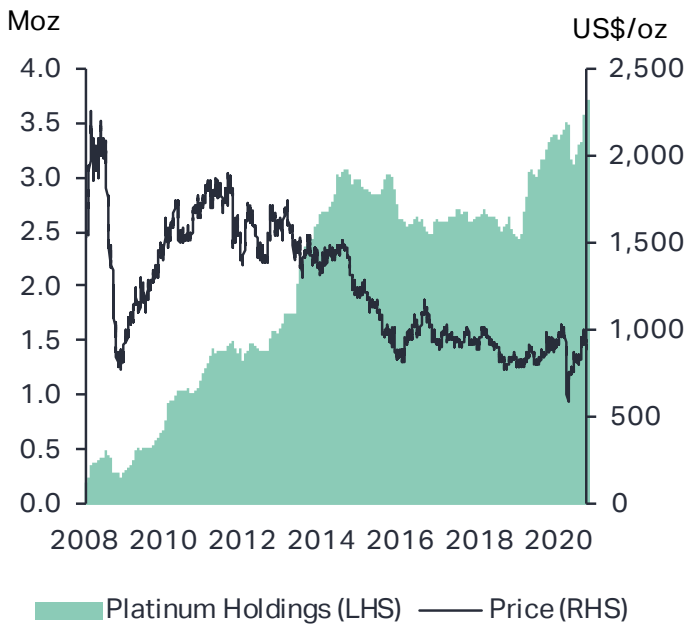
Source: Bloomberg

## Silver



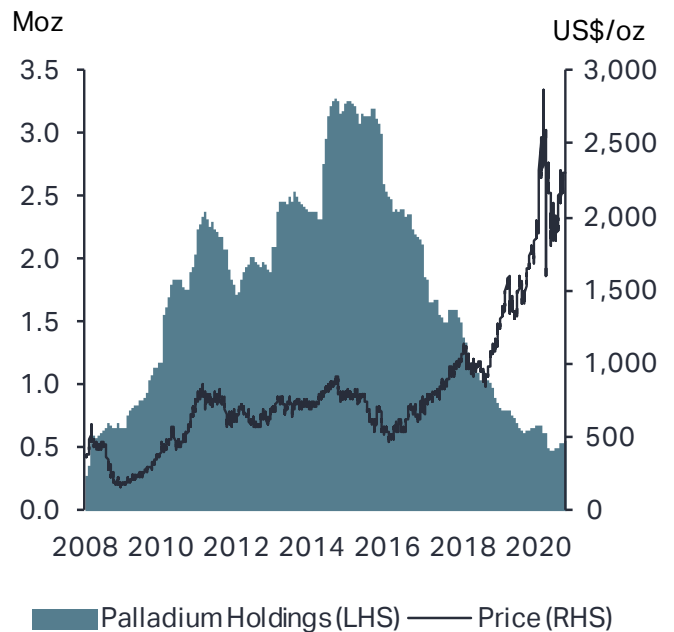
Source: Bloomberg

## Platinum



Source: Bloomberg

## Palladium



Source: Bloomberg



## Metals Focus - The Team

[Philip Newman, Managing Director](#)

[Charles de Meester, Managing Director](#)

[Neil Meader, Director of Gold and Silver](#)

[Junlu Liang, Senior Analyst](#)

[Simon Yau, Senior Consultant - Hong Kong](#)

[Peter Ryan, Independent Consultant](#)

[Elvis Chou, Consultant - Taiwan](#)

[Michael Bedford, Consultant](#)

[David Gornall, Consultant](#)

[Mansi Belge, Research Associate - Mumbai](#)

[Adarsh Diwe, Research Associate - Mumbai](#)

[Neelan Patel, Regional Sales Director](#)

[Ana Monsivais, Sales Executive](#)

[Mirian Moreno, Business Manager](#)

[Nikos Kavalis, Managing Director - Singapore](#)

[Adam Webb, Director of Mine Supply](#)

[Wilma Swarts, Director of PGMs](#)

[Philip Klapwijk, Chief Consultant](#)

[Chirag Sheth, Principal Consultant - Mumbai](#)

[Yiyi Gao, Senior Analyst - Shanghai](#)

[Çagdas D. Küçükemiroglu, Consultant - Istanbul](#)

[Dale Munro, Consultant](#)

[Harshal Barot, Senior Consultant - Mumbai](#)

[Sarah Tomlinson, Analyst](#)

[Francesca Rey, Consultant - Manila](#)

[Celine Zarate, Consultant - Manila](#)

[Jie Gao, Research Analyst - Shanghai](#)

[Gloria Titilayo, Office Manager](#)

## Metals Focus - Contact Details

### Address

Unit T, Reliance Wharf  
2-10 Hertford Road  
London N1 5ET  
U.K.

Tel: +44 20 3301 6510

Email: [info@metalsfocus.com](mailto:info@metalsfocus.com)

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