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Global Gold Equities

Global Insight: Stability opens a window of opportunity

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The operating environment for gold miners is changing; something not fully appreciated by the market, resulting in our global coverage trading at 20yr lows for P/CF and EBITDA. Improved capital allocation and industry cost tail winds should see cash generation lift, even on our stable gold outlook.

Lessons from history: The 'size at all costs' strategy, as gold prices lifted to unprecedented levels between 2000-2012 (real), left the Gold industry ill prepared for the sharp pullback, limiting the post-capex 'harvest' period and almost complete capital destruction for the global seniors. Understandably, gold equity values pulled back sharply – Morgan Stanley Global coverage down ~35% 2014 to-date, while the bullion price fell 10%. **Our coverage now trades on 20yr low trailing P/CF and EBITDA multiples,** creating a window of opportunity for select gold exposures – those finally moving to 'harvest' and those exposed to industry cost tail winds.

Capital allocation discipline emerging – who is moving to 'harvest': A shift in focus from adding ounces to financial returns has driven reductions in capital spending. Global capex is declining about 6%-10% p.a. on aggregate, allowing miners to focus on cash flow and enter the 'harvest' phase. Evolution Mining, Gold Fields, and Goldcorp are key equities exposed to this thematic.

Operating cost tail winds – benefiting from mining industry cost deflation: Operating and sustaining costs are in a downtrend, declining ~10% p.a. on aggregate in our coverage, benefiting from broader mining cost deflation. With much of the controllable cost factors addressed, external factors are now a key differentiator. In Australia, the second-largest gold producer, a mining industry moving ex-capex should see further downward pressure on costs, while ongoing producer currency weakness should provide additional tail winds for non-US producers and US goldco's with significant international exposure. Evolution Mining, Gold Fields preferred exposures to this theme.

Low exposure to a China slowdown is a key attraction for gold equities: Gold's resilience to China's industrial slowdown is a point of differentiation for the equities and a strong argument for including gold exposure in a mining portfolio, we think. Should global macro factors cause a rapid rise in gold price, the industry overall is well placed, but higher-cost, more leveraged names would likely outperform, including Harmony, Barrick, Resolute and Zhongjin.

Changing company behaviour mitigates a return to 'old ways': Major goldco's have publicly stated an increased cash focus while executive remuneration is evolving more performance and cash generation-linked 'at-risk' incentives. The use of gold price/cash flow-linked dividends is growing; further adoption would ensure shareholder priority to cash generation.

Global Gold preferred stocks

Company name	Ticker	Stock rating	Currency	Target price	Last close	% upside
Goldcorp	GG.N	OW	USD	22.50	12.16	85%
Zhaojin Mining	1818.HK	OW	HKD	6.50	4.19	55%
Gold Fields	GFIJ.J	OW	ZAR	56.00	36.26	54%
Evolution Mining	EVN.AX	OW (from EW)	AUD	A$1.70 (prev A$1.35)	1.27	34%

Source: Morgan Stanley Research Closing prices as at 19 Nov 2015.

Executive Summary

Global gold producers are better positioned for gold price stability...

The environment for global gold miners has changed – favourable mining industry cost trends, both operating and capital, and a more disciplined approach to capital allocation will see more gold companies move in to the cash 'harvest' mode, something that has been elusive over bullion's bull run through 2000 to 2012. This has opened up a substantial opportunity for investors, with **global gold stocks currently trading on 20-year low price to cash flow and EV to EBITBA multiples.**

In this global report, we review the factors behind the gold industry's inability to generate value (returns above cost of capital) over the past two decades, what we believe is driving the turnaround, and which producers, we believe are best positioned to benefit from this cash generation thematic across our global coverage universe.

Exhibit 1: Global gold company's 'chasing ounces' failed to make sustainable returns and create value.

Source: Bloomberg, Morgan Stanley Research. Gold companies included are within the MSCI Global Mining Index with a market capitalization of above US$1bn

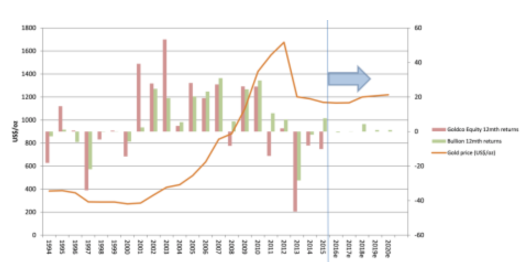
Exhibit 2: Morgan Stanley Global Gold coverage universe historical Price to Cash Flow and EV/EBITDA

Source: Factset, Morgan Stanley Research Note: Data set include current global gold coverage (33 stocks), in early periods only 5 existed, though these were senior goldco's and could be considered a good proxy for the industry in our view

Gold prices have displayed remarkable stability while industrial metals & bulks suffered a China slowdown...

2015 year-to-date, Gold prices have been relatively stable, down 9%, while the base metal complex has declined 27% on average, with oil prices down 22%. In our view, this is a reflection of gold's limited exposure to China's industrial slowdown thematic, currently seeing EM growth-related materials (iron ore, copper, coal, aluminium) challenged. In this context, we believe it makes sense to include gold exposure in an investment portfolio.

Exhibit 3: Annual returns – gold equities vs gold price – equities provide leverage to our flat gold price outlook



Source: Bloomberg, Morgan Stanley Research

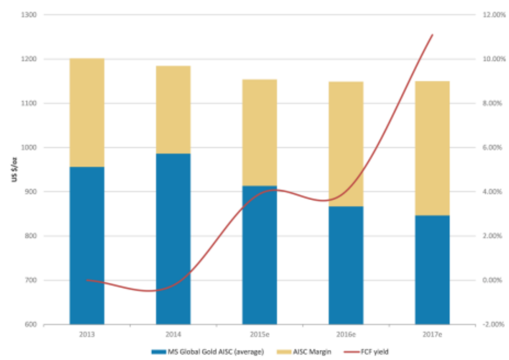
While gold exposure could be obtained through bullion (or similarly via ETFs), we believe the leverage effect provided by better positioned gold equities is favourable at this point in the cycle, given positive cost and capital trends seen across the mining industry. In other words, the upside risk to margins of gold producers combined with potential exploration upside is likely to lead to better returns in equities vs. bullion, in our view.

...while Gold producers benefit from the trend of broader mining industry cost rationalization...

Over-investment for rapid growth in the global mining industry due to the push to supply a growing China, led to significant cost inflation. Combined with poor productivity and harder to find and harder to mine deposits, all contributed to substantial cost escalation (14% CAGR between 2000 and 2012), over-capitalized balance sheets and a broad inability to generate value for shareholders.

What's changed? Over the past 3-4 years gold producers have been forced to increased capital discipline, revise mine plans and growth strategies based on more realistic metal price assumptions, while at the same time there has been industry-wide work force rationalization, lower energy costs and more favourable FX tail winds in many gold producing jurisdictions. These factors, combined with the limited flexibility to deploy new capital, should drive expanded margins for gold producers, in general, under Morgan Stanley's coverage, allowing the gold miners to enter the previously elusive 'harvest' stage.

Exhibit 4: On aggregate was expect global gold miner margins to expand ~10% pa on a broadly flat gold price outlook as the mining environment changes, lifting FCF



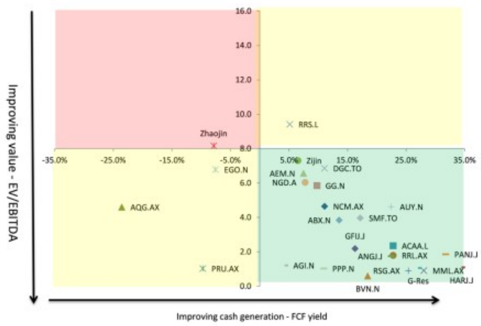
Source: Company data, Morgan Stanley Research (e) estimates

...leading to improved cash generation – The key theme tying our global top picks together

With global gold equities trading at trailing 20 year Price to Cash Flow and EV/EBITDA lows, we believe the market is too severely discounting the ability for gold miners to capitalize on reduced capital requirements and cost tail winds. The cash-generating ability, more disciplined capital allocation behaviour and easing cost pressures amongst our more preferred global gold equities should also limit the downside, if gold prices deteriorate below our base-case expectations.

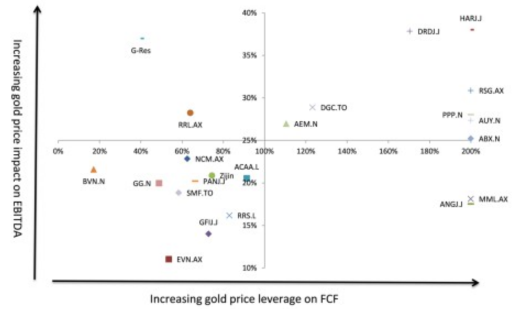
What if gold prices increase above our base-case? Our base-case gold price view is for a 4Q 2015 price broadly in line with spot levels (US$1,080/oz) before modestly rising 5-7% over the medium-term. But what if global circumstances lead to a substantial uplift? (via geo-political events, macro-shocks leading to a flight to the safety of bullion) In this circumstance, the higher-cost, higher-leveraged names are likely to be more volatile and outperform on a relative basis.

Exhibit 5: Value and cash generation across Morgan Stanley Global Gold coverage - 2016e EV/EBITDA vs FCF yield: The shift to harvest is clear.



Source: Morgan Stanley Research

Exhibit 6: What if gold prices rise to US$1,400/oz? FCF and EBITDA impacts more pronounced in higher cost/higher capex producers



Source: Morgan Stanley Research

What's the risk to our theme? What will prevent gold companies returning to past behaviour?

A key risk to the ability for gold companies to move to 'harvest' is the return of past behaviours, namely poor capital allocation and the resultant destruction of value. We believe that in the current environment this is unlikely to occur for four key reasons (which we expand on Section 2.5):

1. Modest cash generation in aggregate for the global gold industry in the current gold price environment provides little incentive for expansion (see Section 3).

2. New gold projects are more challenging to find and more costly to mine (see Section 1.2).

3. Gold price and/or cash flow-linked capital distribution ensures shareholders are given priority to cash before expansionary capital in a gold price rally (though this kind of policy is not yet universal, with only a few global goldco's linking dividends to gold prices).

4. Public commentary from gold company management teams shows the focus on disciplined capital allocation and free cash generation. Furthermore, some management remuneration and incentive structures are more at-risk and performance-related (see Section 2.5).

With the above being said, a return of gold prices to the 2012 highs could see a return of the growth focus; indeed, current marginal deposits could become economic and shareholders would reward growth, given the changed environment. However, this is not our base-case.

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Best Positioned Global Gold Equities

North America – Goldcorp (GG.N, PT US$22.50, Mkt Cap US$11.2bn): With two of its three key development projects now ramping up, Goldcorp is currently undergoing >25% growth in production in 2015, the highest growth of the senior North American goldco's. Longer term, production is expected to stabilize around the 3.6-3.7Moz level for the next several years. By 2016, we forecast costs will have declined 25% and All-in Sustaining Costs (AISC) to stabilize below US$900/oz. Goldcorp recently transitioned to positive free cash flow in Q2 and we estimate it to steadily increase over the coming quarters, yielding 7% in 2016 as capital commitments to developments projects continue to decline. We see the company offering a lower risk profile relative to peers given its BBB+ investment grade balance sheet and its lower political risk profile with 40% of our valuation attributable to assets located in Canada.

Australia – Evolution Mining (PT A$1.70, Mkt Cap A$1.9bn): An expectation of AUD weakness over the medium-term combined with an improving labour market as most major resource projects complete in the near-term, puts Australia well-placed as a gold mining juristiction. Evolution Mining is best positioned, in our view, with the company successfully acquiring growth to become a true global mid-tier. Thus, against global peers the stock trades on undemanding multiples and strong FCF yields, underpinning our expectation for future equity outperformance. Our earnings forecasts have received a modest A1-2cps uplift on an expectation of ongoing cost reductions, while our 26% increase to our price target is driven predominantly by an increased cash value within our group SOTP (now end Dec-16, prev end Dec-15), which better reflects the value of near-term cash generation, in our view. Given the improved cash flow outlook, we upgrade EVN to OW.

South Africa: Gold Fields – (GFI J. PT ZAR56, Mkt Cap US$2.1bn) Low capex intensive growth prospects at Tarkwa and Damang together with a conservative South Deep ramp up, underpin a sector leading group production growth outlook of 3% CAGR over the medium term. Production growth drives a 4% reduction in per unit costs (AISC) despite inflationary pressures. With 44% production coming from Australia we argue that a significant portion of production may benefit from our weakening AUD/US$ outlook and potential lower labour inflation.

China – Zhaojin (1818.HK PT HK$6.50, Mkt Cap Rmb10.7bn): Zhaojin is our preferred pick in the China gold space given its cost control and visible volume growth. With new mine, Haiyu, expected to commence in three years, we are looking for Zhaojin to achieve a production CAGR of 5% in 2014-17e. While the market is concerned about its high gearing level (128% in 2015e), we see this is mitigated by China's favorable funding environment. This includes government's fiscal easing policy through interest rate and RRR cuts. Besides, Zhaojin's management has indicated its plan for a potential A-share IPO to help deleveraging.

Exhibit 7: Morgan Stanley Global Gold coverage

Overweight	Currency	Price target	Equalweight	Currency	Price target	Underweight	Currency	Price target
Goldcorp	USD	22.50	Barrick Gold	USD	9.50	Harmony Gold	ZAc	1100
Gold Fields	ZAc	5600	Newcrest Mining	AUD	13.70	G Resources	HKD	0.19
Evolution Mining	AUD	1.70	Acacia Mining	GBp	220	Medusa Mining	AUD	0.40
Zhaojin Mining	HKD	6.50	Detour Gold	CAD	17.00	Regis Resources	AUD	1.30
Randgold Resources	GBp	4220	Eldorado Gold	USD	4.50	Resolute Mining	AUD	0.25
AngloGold Ashanti	ZAc	12500	New Gold	USD	3.25			
DrdGold	ZAc	330	Polymetal International	GBp	490			
Pan African Resources	ZAc	280	Sibanye Gold	ZAc	1700			
Buenaventura	USD	8.40	Yamana Gold	USD	3.00			
Agnico Eagle	USD	39.00	Alacer Gold	AUD	3.40			
			Alamos Gold	USD	4.75			
			Perseus Mining	AUD	0.37			
			Primero Mining	USD	3.75			
			SEMAFO	CAD	4.25			

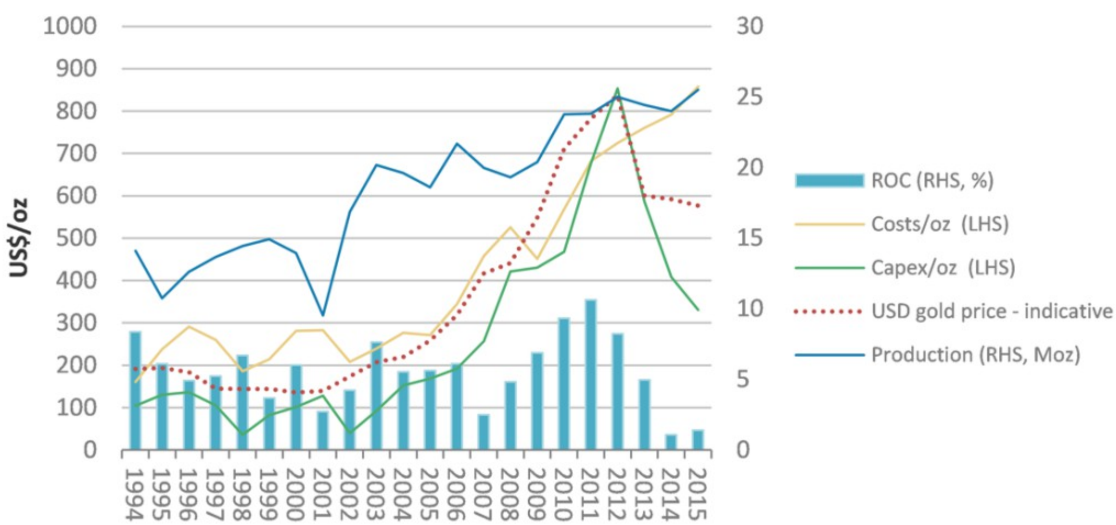
Source: Morgan Stanley Research

1. Time to create value?

"Victory has defeated you..." Bain, The Dark Knight Rises

Over the past 20 years, global gold companies as a group, pursuing a growth at all cost strategy have struggled to create value – **poor capital allocation**, **more challenging deposits, declining grades, rising cost** and **capital pressures** and **optimistic metal price assumptions** combined with **poorly timed acquisitions,** all contributed to an industry struggling to generate returns above their cost of capital. While there have certainly been specific cases where individual companies have added value, including through the drill bit and effective consolidation, in aggregate, across the global gold companies there was only one occasion over the past 20+ years, in 2011, when average returns exceeded 10% – this required unprecedented gold prices driven by global financial and economic uncertainty.

Exhibit 8: Global gold companies 'chasing ounces' through the cycle with capex and opex rising significantly. The constant state of expansion prevented the 'harvest' stage, substantially impacting returns and weakened balance sheets as gold prices retreated.



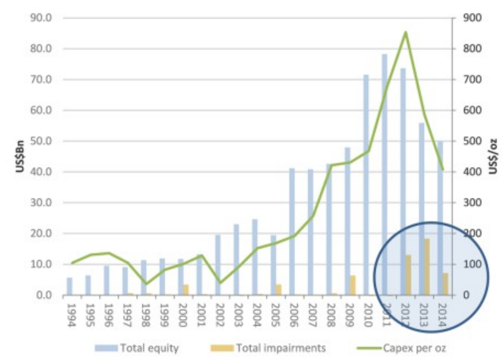
Source: Bloomberg, Morgan Stanley Research. Gold companies included are within the MSCI Global Mining Index with a market capitalisation of above US$1bn

Quest for size limited 'Harvest' period, impacted the ability to create value, drove balance sheet debt and lead to value destruction

1.1 Poor capital allocation and rising capital intensity stacking the balance sheets

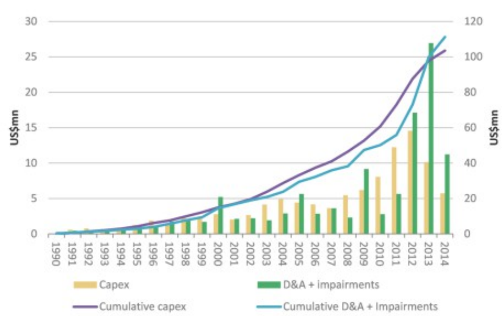
As shown in **Exhibit 8**, following generally flat capital intensity through the late 1990s to early 2000s, gold company development costs ramped up substantially in an effort to increase production. In the rising gold price environment, the resultant return justified this trend, with ROC moving from a 2007 low of 2.5% to 10.6%, the 2011 high. However, given this significant capital outflow, ramp up challenges and, in hindsight, optimistic metal price assumptions, Gold company balance sheets have become over-capitalized. In fact, the capital positions of our sample set increased over seven-fold through this period. As a result, the rapid decline in gold prices lead to a material fall in returns hitting the lowest levels observed in the last 20 years, followed by a period of large impairments.

Exhibit 9: Top 6 global gold companies went through a period of significant capex spend over 2000 - 2012, followed by major impairments (circled) as capital and cost inflation and falling gold prices could no longer support the carrying value



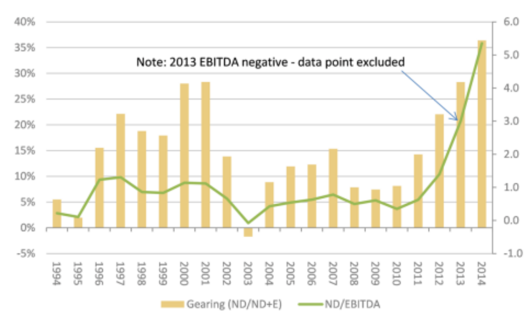
Source: Bloomberg, Morgan Stanley Research (Top 6 global goldco data shown)

Exhibit 10: Almost complete capital destruction from Gold seniors over the past two decades



Source: Bloomberg, Morgan Stanley Research (Top 6 global goldco data shown)

Exhibit 11: Rising debt levels and poor returns combined with recent impairments (as shown in Exhibit 2 & 3) has led to over-leveraged balanced sheets within the gold industry

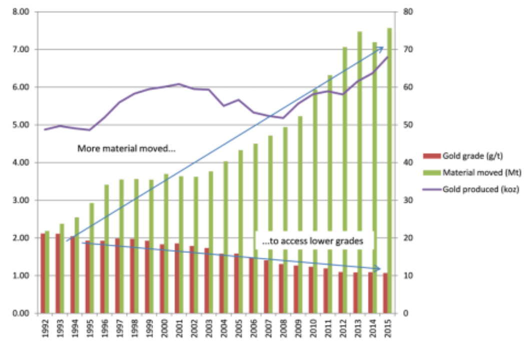


Source: Bloomberg, Morgan Stanley Research (Top 6 global goldco data shown)

1.2 Falling gold grades – new high value projects harder to find, develop and mine

As shown in Exhibit 12, over the last 20 years, global gold grades have progressively declined, according to Wood Mackenzie data. With low-hanging fruit essentially picked in the 1990s, producers have pushed forward developing lower-grade, higher strip ratio (often deeper) deposits leading to larger and higher capital cost projects in order to replenish reserves and grow production. As shown in the Exhibit, material movements took a more rapid step up beyond 2000, in line with the rising gold price, as large low-grade deposits started to look more attractive under the more optimistic gold price outlook. However, as discussed in this report, this over-investment has significantly impacted returns and reduced flexibility.

Exhibit 12: Over the past ~20 years, global average gold grades have halved, requiring gold companies to increase mining rates

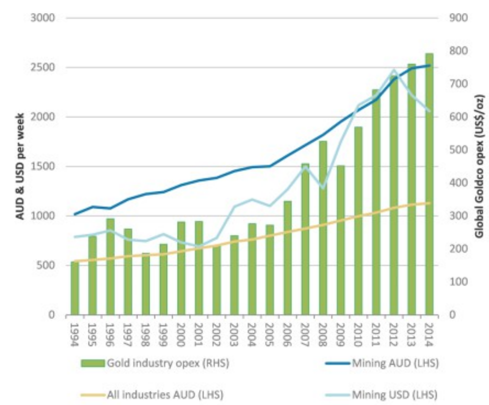


Source: Wood Mackenzie, Morgan Stanley Research

1.3 Operating cost inflation – the mining industry trend

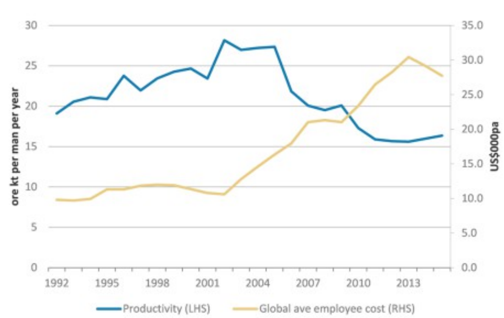
Through the super-cycle, gold companies were certainly not alone in over-investment, The significant China-driven demand uplift and price rise in almost all metals and bulk commodities, and the subsequent scramble for expansion, brought with it the need for significant increases in work force and placed many aspects of development under considerable pressure in many regions. Turnover rates lifted and as a result, labour costs increased (in order to retain staff), contractor pricing power increased (given ample work) and overall operating costs increased. Gold companies were not alone in driving up global mining opex and capex, but this, in combination with increasing investment, increased environmental scrutiny (extending investment horizons) and challenges finding new attractive deposits, all contributed to the industry's struggles as metal prices rolled over.

Exhibit 13: Australian mining industry wages have risen significantly above all other industries



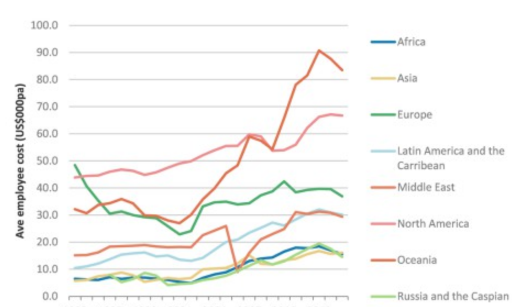
Source: ABS, Morgan Stanley Research

Exhibit 14: Driven by the commodities super-cycle, global labour expenses have increased significantly while productivity suffered....



Source: Wood Mackenzie, Morgan Stanley Research

Exhibit 15: ...and North America and Oceania (including Australia) have suffered the most of all mining regions.



Source: Wood Mackenzie, Morgan Stanley Research

2. What's Changed?

"I guess what I'm trying to say, is that if I can change, and you can change, everybody can change!" Rocky Balboa, Rocky IV

As the gold price appreciated, companies attempted to build projects as quickly as possible. During this continuous stage of capital spend and expansion, producers rarely, if ever, entered a cash flow harvesting stage on a company-wide basis. Now with the gold price having dropped +40% since its peak in 2011 (in USD), management teams have scrambled to lower operating and discretionary costs, sell non-core and higher cost assets and now require higher and more stringent thresholds for returns on project spending (and utilize more realistic metal price assumptions). This greater capital allocation scrutiny results in a number of projects being deferred or shelved altogether. While strategies have shifted from growth to returns, gold prices which have continued a gradual slide, have negated much of the positive impact. We highlight the gold producers we feel are best positioned under our flat gold price outlook, however it is worth noting that gold companies in general are now much better positioned should the cycle turn and metal prices improve.

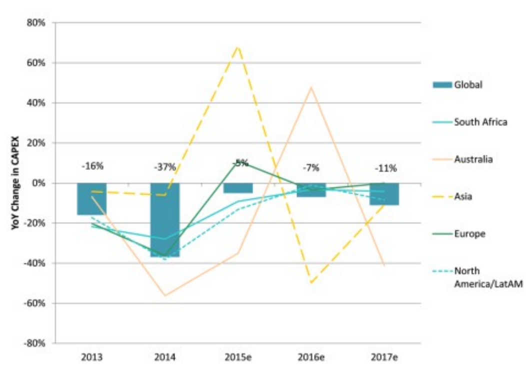
2.1 Capital expenditures and discretionary spending have declined, expect this to continue

Although extensive cuts have already been made to capital expenditures and discretionary spending given the size of company balance sheets, we suspect in the current gold price environment, more cuts will come ...

Declining Capital Spending

With the focus shifting from adding ounces to financial returns, capital spending programs have been slashed as management teams have emphasised, and in some cases, balance sheets have demanded, a need for capital preservation. Globally, our team generally sees capex continuing to decline to 2017. Sustaining and growth capital cuts however remain more of a near term solution, as in many cases, over the longer term, companies will need to catch up on deferred sustaining and maintenance spending or risk an adverse impact on the value of the assets and new projects will be required in order to maintain current production levels.

Exhibit 16: Declining capex spending expected to continue



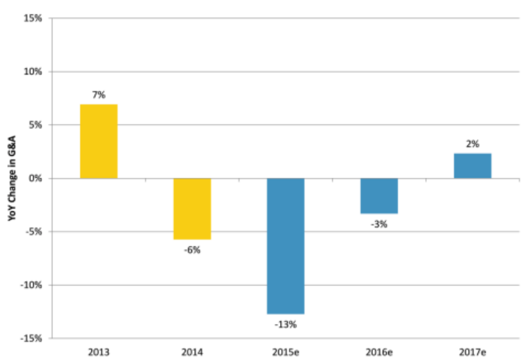
Source: Company Data, Morgan Stanley Research

Exhibit 17: Key project deferrals across the Global Gold space over past three years

Company	Asset	Location	Original 1st production	Deferred to:	Est. Capex	Indicative gold production pa	Comments
Newcrest/Harmony	Wafi Golpu - 2012 PFS concept	PNG	circa 2019	Scope revised	US$4.8bn (2012$)	400	PFS released Aug 2012 - 1st production 2019 - subsequent revision of plans (see below)
Newcrest/Harmony	Wafi Golpu - Revised concept	PNG	2020		US$2.3bn	140	Feasibility for 2-stage build underway for Dec-15
Goldcorp/New Gold	El Morro	Chile	2012	2017	US$3.9bn		
Barrick Gold	Cerro Casale	Chile	Decision after Pascua Lama	Indefinitely	US$6bn		Originally planned to come after Pascua Lama
Barrick Gold	Donlin	Canada	2019	Indefinitely	US$6.7bn	1.1Moz	Project doesn't meet ABX investment criteria, requires higher gold prices
Barrick Gold	Pascua Lama	Argentina/Chile	2013	Indefinitely	>US$9bn estimated (US$5bn spent)	650koz	Will require both higher gold prices and more transparency on legal
IAMGOLD	Cote Lake	Canada	Exploration/study Stage	indefinitely			Construction decision deferred until higher gold prices
Kinross	Tasiast Expansion Project	Mauritania	2018	Indefinitely	US$1.6bn	848koz	Decision not to move forward with full expansion, continuing to study smaller phased options
Primero Mining	Cerro del Gallo	Mexico	Feasibility stage	Indefinitely	US$18.8mn (first stage HL)	68koz	Requires higher gold prices to improve rate of return

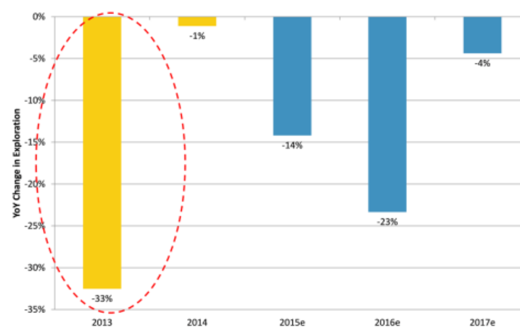
Source: Company data, Morgan Stanley Research

Exhibit 18: Discretionary spending cuts included considerable reductions in corporate expenditures...



Source: Company Data, Morgan Stanley Research

Exhibit 19: ...and exploration budgets. And we expect further cuts going forward.

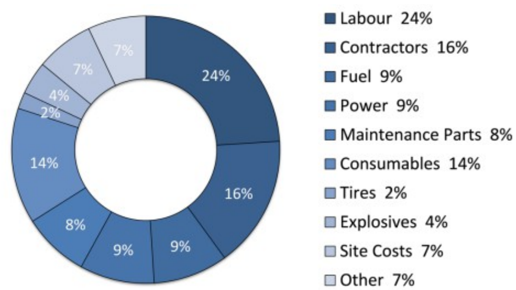


Source: Company Data, Morgan Stanley Research

2.2 Operating costs are trending down; but we suspect further material cuts will become more challenging in some regions

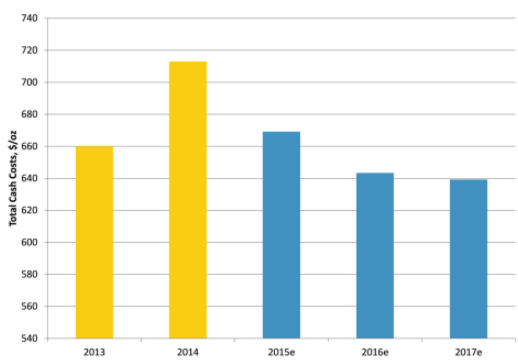
In the face of an uncertain top-line due to commodity price volatility, focus is on positioning in the global cost curve. We believe reductions will progressively become more difficult with most of the simpler controllable reductions now in place. Individual companies have taken a variety of approaches including head office reductions, slashing exploration spending, deferring sustaining capital programs, mining higher grades and lowering strip ratios. Longer term however, industry trends suggest this is unsustainable as higher grades, lower strip ratios and sustaining capital deferrals come at the expense of mine life and potentially asset value. That said, over the nearer term, we do expect costs trends to benefit from lower labour costs (including improving productivity) and fuel inputs and favourable local currencies.

Exhibit 20: Although it is very much asset specific – a typical operating cost breakdown of a large gold miner is shown below (Goldcorp)



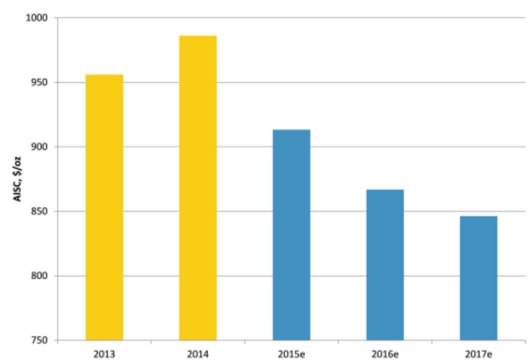
Source: Goldcorp, Morgan Stanley Research

Exhibit 21: Global Total Cash Cost – We see more modest cost cutting going forward (in USD)



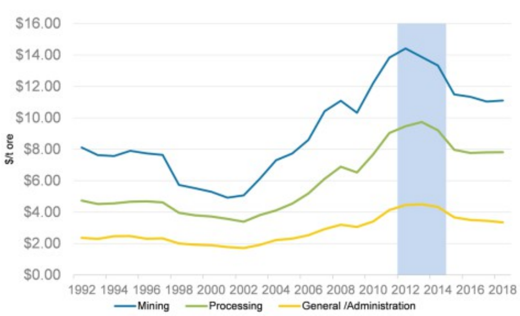
Source: Company Data, Morgan Stanley Research

Exhibit 22: Global AISC are also expected to decline further (but at a slower rate) (in USD)



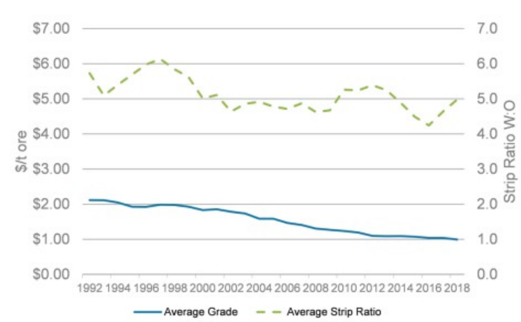
Source: Company Data, Morgan Stanley Research

Exhibit 23: Unit costs peaked in 2012-2013 and are now trending modestly lower



Source: Wood Mackenzie, Morgan Stanley Research

Exhibit 24: Higher grades and lower strip ratios have been one way companies have lowered costs in the short term but longer term trends suggest grades to further decline



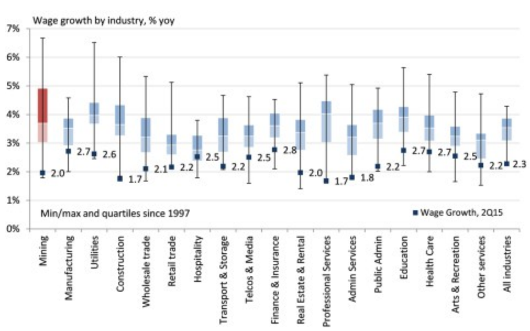
Source: Wood Mackenzie, Morgan Stanley Research

Rising labour costs have been a major contributor to overall cost escalation within the broader mining sector, and, as shown in Exhibit 1, played a significant role in value erosion post the 2012 gold price peak.

2.2.1 Weak labour market to benefit the miners – The Australia example

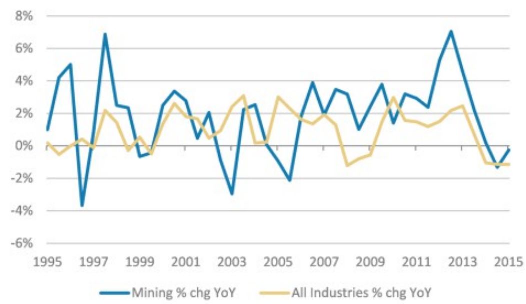
In section 1.3, we discussed the history of mining cost inflation impacting the gold mining industry, with Exhibit 9 showing Oceania (largely Australia). Like the global gold industry, Australian mining costs experienced super-cycle commodity price led inflation, though the impact was substantially more pronounced than other mining jurisdictions, as shown in Exhibit 9, Section 1.3 earlier in this report. The Australian Bureau of Statistics (ABS) data shows mining costs increased at almost twice the rate of general wage growth in the country (5.3% vs 2.8% CAGR) and in USD terms the rate of growth increases significantly to 10%pa CAGR over the past two decades. However, since 2012, the rate of increase clearly slowed, reversing in 2014.

Exhibit 25: Annual wage growth by sector since 1997– 2Q15 wage growth close to lowest in ~18yrs



Source: ABS, Morgan Stanley Research

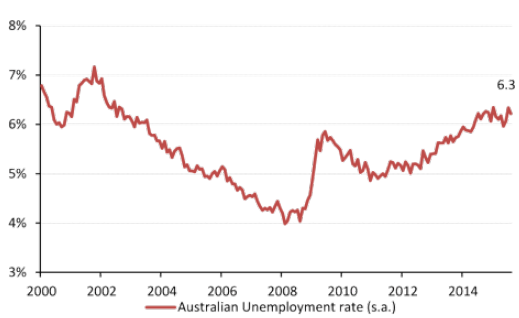
Exhibit 26: Annual wage growth rates for the Australian Mining Industry vs All Industries



Source: ABS, Morgan Stanley Research

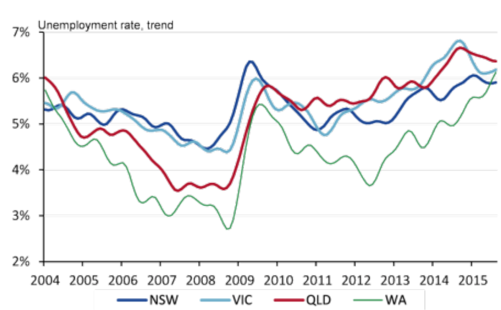
Will this weakening trend continue? We think it will – Australian unemployment levels have been progressively rising post-GFC, last recorded at 6.1%, and will continue to rise towards 6.7%, according to the Morgan Stanley Australian Economics Team, largely driven by unemployment in Western Australia, Australia's primary mining hub. We believe the rise in WA is largely driven by both headcount reductions in the iron ore industry and the roll off of oil & gas projects, and with few new projects to soak up this labour excess, we see this as flowing through to the miners' ability to stabilise costs. We don't see this as immediately leading to lower labour costs, but rather flow-through over time, through attrition.

Exhibit 27: Australian unemployment levels have risen since the post-GFC period....



Source: ABS, Morgan Stanley Research

Exhibit 28: ....with Western Australian levels catching up to the East Coast trends



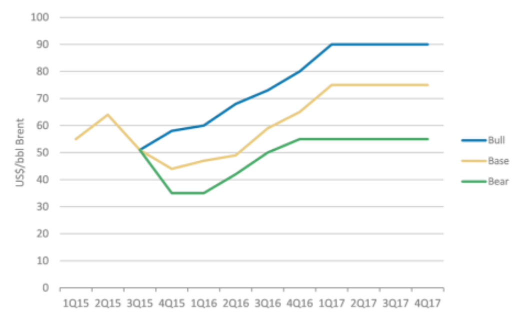
Source: ABS, Morgan Stanley Research

2.2.2 Fuel costs – Morgan Stanley sees oil entering last leg of the trough

Our Energy Commodity Strategist, Adam Longson, discussed his views on the outlook for oil prices in his recent piece: "Crude Oil: Still Cyclical: From Bad to Better in 2016". He believes oil prices should remain depressed and rangebound through mid-2016 as the supply overhang is worked off. Morgan Stanley forecasts Brent crude prices falling from an average of ~US$51/bbl in 3Q2015 to US$44/bbl in 4Q before gradually recovering through 2016. While the dip in oil prices from current levels is expected by us to be short-lived, we suspect the more nimble miners to hedge their oil exposure (where they can) at the lower oil price levels, offering more prolonged exposure to the fuel price decline.

Unfortunately there are several mining regions where the fuel prices are controlled by governments and government agencies, and although they do tend to follow world market trends, it can be sticky to the downside.

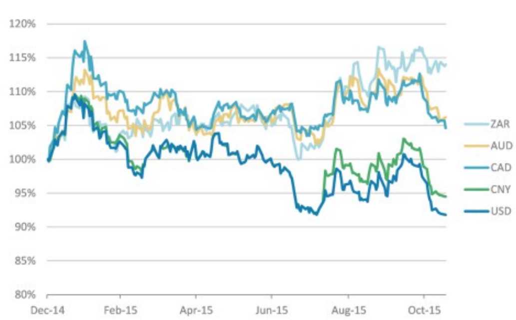
Exhibit 29: Morgan Stanley Brent oil forecasts



Source: Morgan Stanley Research

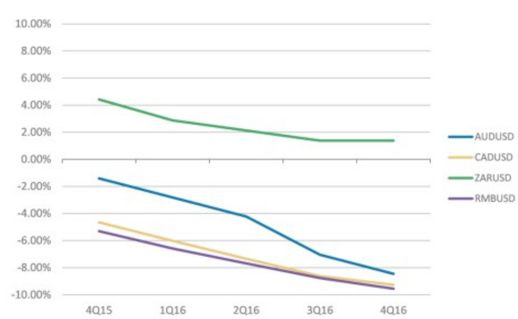
2.2.3 FX exposure to aid non-US producers (or those US producers with significant offshore ops)

Exhibit 30: Gold prices in various currencies: weakness in AUD & ZAR has more than offset USD gold weakness



Source: Bloomberg, Morgan Stanley Research

Exhibit 31: Morgan Stanley FX forecasts for AUD, CAD, CNY and ZAR vs USD compared to spot



Source: Bloomberg, Morgan Stanley Research

The Morgan Stanley FX strategy team, led by Hans Redeker, has a broadly bullish view on the USD. The view is not US FOMC focused (i.e. to hike or not to hike), but rather, the framework is built on the reduced investment attractiveness in much of the rest of the world including EM overcapacity, deleveraging and competitiveness concerns.

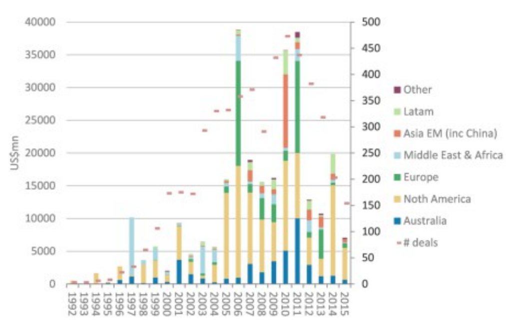
As such, the Morgan Stanley FX team forecasts ongoing weakness in key commodity producer currencies, specifically the Australia dollar, Canadian dollar and the South African Rand. The outlook for the currencies, compared to spot is shown in the Exhibit 28. A weaker AUD has played a significant role in moving most ASX miners under coverage to the low-end of the cost curve in USD terms.

In section 1.1, we highlighted the considerable debt burden shouldered by senior gold companies, following the substantial capital investment with rising capital intensities in a race to lift production and expand resources during the gold bull run. Top 6 global goldco's saw gearing (as ND/ND+E) rise to +30% and ND/EBITDA over 5x. This is a rather unique development in the gold sector as previously gold producers acquired assets and built projects largely with equity. The balance sheet weight has clearly negatively impacted company valuations and flexibility as metal prices rolled over – it has also added significant sensitivity to metal price moves.

As a result of this race to increase production and resources, gold companies as a whole were not focusing on portfolio upgrading – adding new, better quality assets while selling smaller, lower quality non-core operations, or building cash balances. As a result, nearly all of the major gold producers were left with large portfolios of assets, many with small higher cost production, which added to the production rate, but hurt cash flow. Once metal prices rolled over and balance sheets moved into focus, asset sales were an obvious lever for companies to pull – lowering overall operating costs (in most cases) with funds from the sales being applied to debt reduction. This process started slowly in 2013 but has picked up momentum in 2014/15.

Barrick has been one of the more active major producers, with several asset sales over the past couple years. In 2015, Barrick's management provided a stated mandate to reduce its debt position by US$3bn by year-end, much of this reduction was through asset sales given the company's limited FCF at current metal prices. Given our flat gold price outlook, we suspect non-core asset sales will continue as a theme in order to reduce balance sheet debt.

Exhibit 32: Global Gold M&A deals (sellers only) by value. North American deals dominate...



Source: Bloomberg, Morgan Stanley Research

Exhibit 33: ...asset sales from the Top 6 goldco's has picked up over last three years

Source: Bloomberg, Morgan Stanley Research

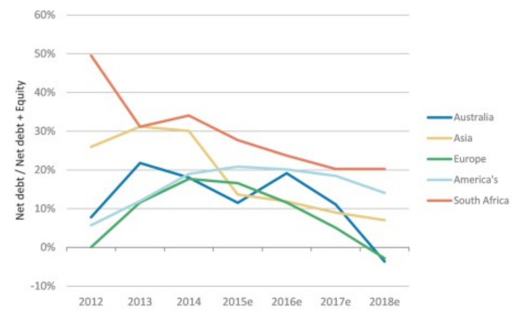
2.4 The end result – improved free cash flow, balance sheet deleveraging allowing some harvesting across the industry

On average and based on our flat gold price outlook, we forecast modestly improved free cash generation across all major gold mining regions on the back of easing cost pressures and reduced capital outlays (cutting sustaining capital costs and deferring new project builds). Our most preferred names, however are best positioned, either by entering the Harvest stage now with FCF rising at a faster rate than peers or are exposed to greater cost tail winds. This focus on returns in general, combined with asset sales, should begin to reduce the overall debt burden in the industry. **If metal prices were to gain momentum over the next 12 to 18 months, the sector overall should be much better positioned to generate reasonable cash flows and flexibility to further clean up balance sheets, before they move into the next phase of growth**.

Exhibit 34: FCF generation forecast to improve across all regions...

Source: Company data, Morgan Stanley Research estimates Note: Average regional FCF yield is calculated as a market cap weighted average

Exhibit 35: ...allowing goldco balance sheets to de-lever and potentially lift shareholder returns



Source: Company data, Morgan Stanley Research estimates Note: Average gearing (as ND/ND+E) is calculated as a market cap weighted average

We note however, our house view is for relatively flat metal prices over the next several years (around current spot). This is not the ideal scenario for the industry as a whole with many global gold producers still forced to operate on very thin margins. This narrows our focus on those producers that are best positioned to weather further metal price weakness (i.e. remain FCF-positive at lower gold prices) and that can generate value beyond metal price moves.

2.5 Changes in corporate behaviour should mitigate risk of a return to the 'old ways'

A key risk to the ability for gold companies to move to harvest is the return of past behaviours, namely poor capital allocation and the resultant destruction of value. We believe that in the current environment this is unlikely to occur for four key reasons:

1. The current environment and gold price provides little price incentive to spend and expand current operations. We discuss our outlook for gold price in the Section 3.

2. New projects are harder to find and harder to mine, and under current gold prices would struggle to pass investment hurdle rates. In Section 2.1, we highlight numerous gold projects across the globe which have been delayed or shelved indefinitely due to gold price.

3. Linking gold prices to capital distribution, through gold price based dividend policies may assist in ensuring capital is directed at shareholder returns before expansionary capital. While this is yet to be adopted broadly across the industry, Newmont (US), Eldorado (US), Acacia Gold (UK) and Evolution Mining (Aus) use this style of payout.

4. Many major global gold company management teams are more committed and/or incentivized to smarter capital allocation. This is clear through public statements from executives as well as changes in remuneration structure. Public statements from mining executives include:

Last year **Goldcorp CEO, Chuck Jeannes,** sees 'Peak Gold production this year or next year where production will then begin to decline, "Whether it is this year or next year, I don't think we will ever see the gold production reach these levels again,"; "There are just not that many new mines being found and developed." (Source: *WSJ* September 8, 2014)

As part of **Barrick President Kelvin Dushnisky's** 2014 annual report address, he states "As part of our return to a lean, decentralized operating model, we have shrunk our head office by close to half and eliminated all middle management between it and the mines. As a result, our head office has been freed up to focus on allocating capital and setting strategy, while our mine managers and country directors have full autonomy to run their businesses as they see fit in order to maximize free cash flow and maintain their license to operate."

James Gowan, formerly co-president of Barrick added: "Our new approach to capital allocation demands that all investments align with our strategic focus and contribute to maximizing free cash flow in pursuit of industry-leading returns. Existing mines will compete for capital, and we will not subsidize loss-makers."

Evolution Gold Chairman, Jake Klein recently comment in the press: "Operating assets today are certainly more expensive than they were a year ago," Klein said. "We're now focused more on integrating existing assets and getting them to perform successfully." (Reuters, 27 October)

Remuneration policies at major global goldco's have also been adjusted for the current environment, including:

Newcrest has changed its executive pay structure this year. Incentives are now less cash based and more stock focused with a shift to more at-risk remuneration. There is also a change to long-term incentives for resource growth, now based on an ounce per share basis, as opposed to absolute growth.

Barrick modified executives compensation program in early 2014 tying it to performance, paid in units that convert into Barrick shares which cannot be sold until the executive retires or leaves the company.

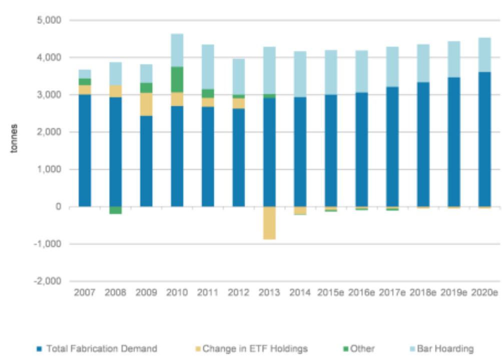
3. Gold price support passing, but continued relative stability expected

3.1 Gold's diversity is a key factor in the need for gold in a mining equity portfolio

Over the past 12-months, comparing gold's price performance with that of other commodities, has proven to be one of the more resilient metals to the universal weakening in global commodity demand growth. Gold is down by only 8.5% year-to-date to ~US$1,090/oz, while base metals and bulk commodities are down 18% - 38%, respectively, over the same period, and Brent crude oil prices are down ~22%.

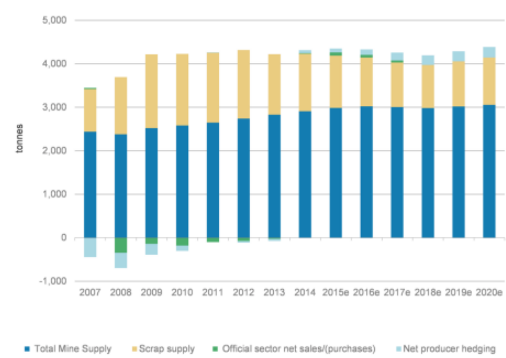
Gold demand is expected to strengthen over the medium-term, with weaker investment demand more than offset by stronger physical demand for the metal in fabrication. Although the approaching US Fed rate hike represents a near-term bear risk, we continue to expect medium to longer-term price stability. Indeed, recent commentary from the US Federal reserve indicates a more dovish stance and potential for a hike tied to global economic and financial conditions; something with which the Fed will have little influence. Morgan Stanley's view remains for a hike in Dec-15, with a market-implied probability of 50%. While we expect initially this could have a negative impact on gold sentiment, the uncertainty around the first hike being a one-off event, or the start of a rate rising cycle should keep gold supported.

Exhibit 36: Gold demand expected to grow over the medium-term; a fall in investment supported by rising fabrication



Source: World Gold Council, Goldfields Mineral Service, CPM Group, Morgan Stanley Research (e) estimates

Exhibit 37: Gold mine supply expected to flatten beyond 2017e, with some projects closing and committed projects drying up

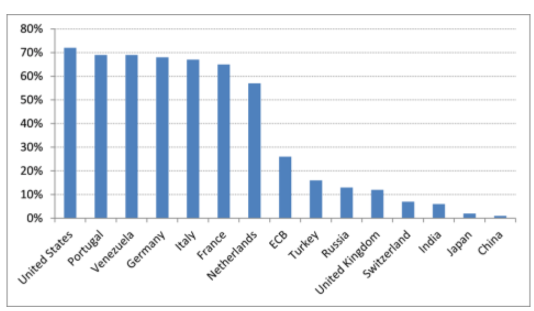


Source: World Gold Council, Goldfields Mineral Service, CPM Group, Morgan Stanley Research (e) estimates

Bull point – EM reserve upside

An important demand growth driver to track is emerging markets, holding less than 10% of total reserves in gold vs. about 70% in developed economies. China and India both have currency policies requiring greater gold backing – an official sector driver that delivers an increasing share of total demand growth.

Exhibit 38: Gold as a % of total reserves by country



Source: World Gold Council, Morgan Stanley Research

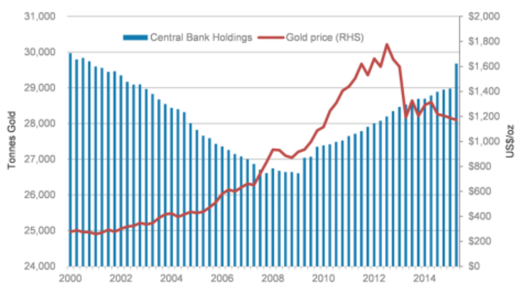
Bear point – Investor positioning moving from long to neutral

CFTC's 'non-commercials' data indicate a steady lift in short positions (long positions largely unchanged; net positioning moving from net-long to neutral). Similarly, ETF holdings continue to slide, down 42% from a Dec-12 peak of 84Moz to below 50Moz (as at Sep-15; Bloomberg). All central bank holdings, the expansion of which underpinned gold's US$1,000/oz rally in 2009-11, are unchanged since mid-2013 at 32kt.

Exhibit 39: Known global gold ETFs vs price

Source: Bloomberg, Morgan Stanley Research,

Exhibit 40: Gold Central bank holdings



Source: World Gold Council, Morgan Stanley Research

Exhibit 41: Morgan Stanley Gold price forecasts

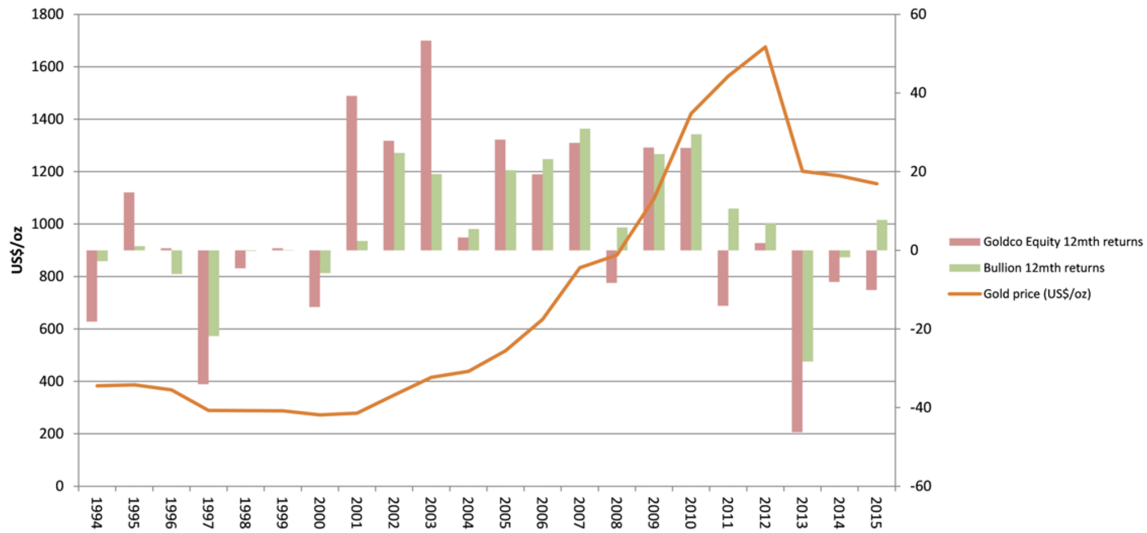
	Bull	Base	Bear
		US$/oz	
2015e	1,369	1,137.7	868
2016e	1,382	1,149	976
2017e	1,380	1,150	975
2018e	1,260	1,200	1,140
2019e	1,271	1,210	1,150
2020e	1,281	1,220	1,159
LT		1,234	

Source: Morgan Stanley Research

3.2 Given relative gold price stability, equities provide leverage

The question remains how to position in the gold market? We believe it is critical to review where we are in the equity cycle. When looking for exposure to gold prices, whether it is to protect against geopolitical and financial uncertainty or as a hedge against currency and inflation risks, the key is to figure out where we are in the equity cycle, current risk/reward skew and then decide how to build a position, whether it is specific names, a basket of gold producers and developers or simply owning bullion.

Exhibit 42: Annual returns – gold equities vs gold price – this chart highlights the leverage achieved through gold equity investment.



Source: Bloomberg, Morgan Stanley Research (NB: Annual returns are based on investment from 1-Jan to 31-Dec)

Under our base-case gold price outlook – buy equities with demonstrated ability to generate value

In a flat gold price environment, broadly in line with our base-case price expectations, we believe investors should focus on specific gold companies that are able to manage and adjust their current businesses within the current gold price environment and that have the ability to generate value for shareholders beyond gold price moves. It is in this environment where we find cheap companies remain cheap and the higher quality producers attract a greater proportion of the funds flow driving multiple expansion.

4. Assessing our coverage - discovering mispriced stocks best positioned to the changing environment

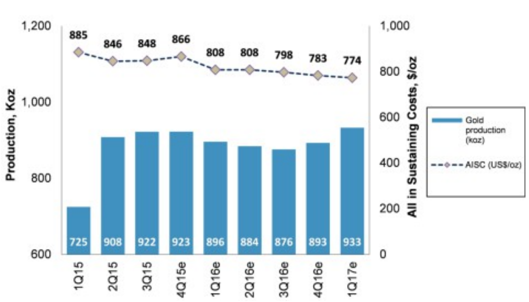
Much of our discussion throughout this report considers the Gold industry as a whole or by regions, which overall are still very much a work in process and very dependent on the gold price movement. To be clear, we believe the three to four years of self help have been successful in general, however largely still under pressure, given the drop in gold prices over this same period. ***That said, there are clear stand outs amongst our global coverage universe; those companies which are able to create value in the current gold price environment – those who are clear beneficiaries of reduced cost pressures at both the operational and capital levels, benefitting from local currency weakness leading to improved cash generation, stronger balance sheets and improving potential for capital returns.***

North America – Goldcorp – OW, PT US$22.50, US$11bn mkt cap)

Investment Summary: We believe Goldcorp is one of the higher quality, senior gold producers. Given its recent share price underperformance and the near term transition to positive FCF (declining costs and lower capex) we believe the stock provides an attractive investment opportunity. With two of the three key development projects now pouring gold and ramping up, GG is currently realizing its peer leading growth, with declining capex and operating costs driving FCF growth in 2015 and beyond. Goldcorp recently transitioned to positive free cash flow in Q2 and we estimate it to steadily increase over the coming quarters, yielding 7% in 2016 as capital commitments to developments projects continue to decline. We see the company offering a lower risk profile relative to peers given its BBB+ investment grade balance sheet and its lower political risk profile with 40% of our valuation attributable to assets located in Canada.

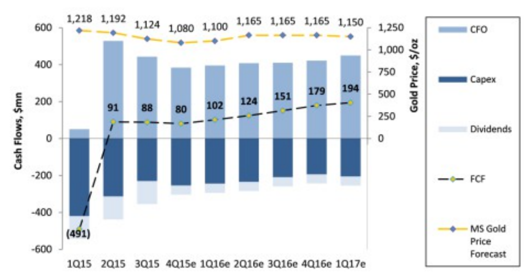
In charts:

Exhibit 43: >25% production growth from Q1 to Q2, although now maintained around these levels, we see costs continuing to decline



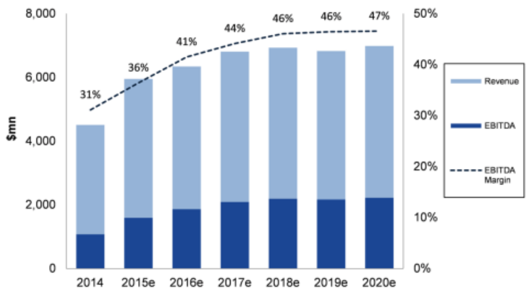
Source: Company data, Morgan Stanley Research (e) estimates

Exhibit 44: With growth now realized we see FCF yields increasing as GG enters a harvest cycle



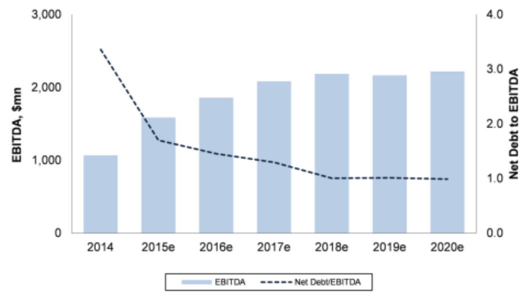
Source: Company data, Morgan Stanley Research (e) estimates

Exhibit 45: We forecast GG's growth from its lower cost mines to lower its cost profile and increase margins



Source: Company data, Morgan Stanley Research (e) estimates

Exhibit 46: Even with production growth realized, we still forecast contribution from lower cost mines to result in EBITDA growth and a declining net debt/EBITDA ratio



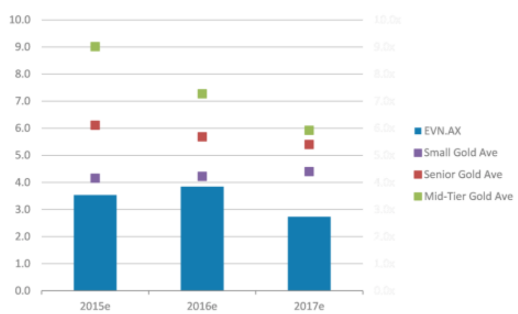
Source: Company data, Morgan Stanley Research (e) estimate

Australia – Evolution Mining – OW, PT A$1.70/sh, A$1.8bn mkt cap)

Investment Summary: Emerging from a transitionary period through FY15, Evolution has firmly moved into the ranks of global mid-tiers, and as such we expect the equity to continue to re-rate upwards as below peer earnings and cash flow multiples move towards global averages. With all assets located within Australia we see EVN as a clear beneficiary of expected AUD weakness and an increasingly favourable labour market.

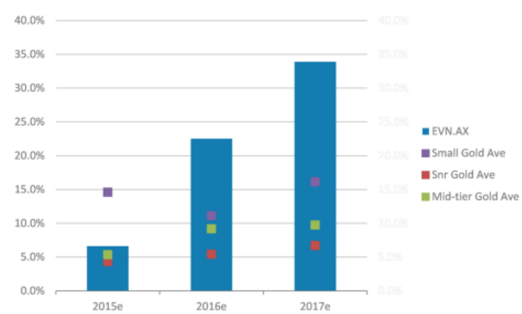
In charts:

Exhibit 47: Earnings multiples (EV/EBITDA below) are forecast to be well below global averages...



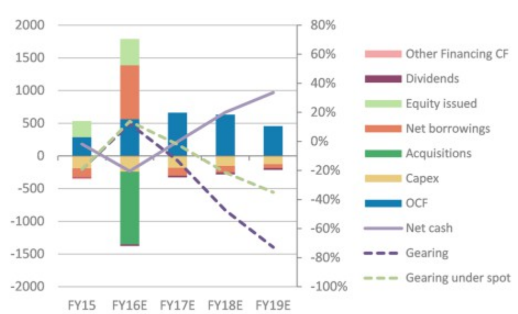
Source: Company data, Morgan Stanley Research (e) estimates

Exhibit 48: ...while FCF yields are expected to be well above global peers in all catagories



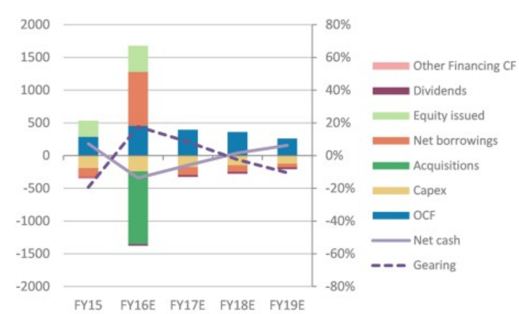
Source: Company data, Morgan Stanley Research (e) estimates

Exhibit 49: Cash flow profile - under our base-case, EVN's balance sheet deleverages rapidly, though it slows at spot gold prices...



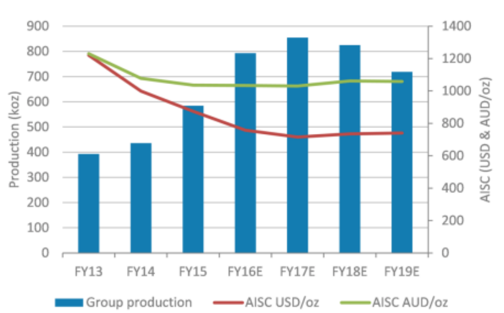
Source: Company data, Morgan Stanley Research (E) estimates

Exhibit 50: ...and even at US$1,000/oz gold, EVN continues to pay down debt and ease gearing levels from an undemanding 12% peak



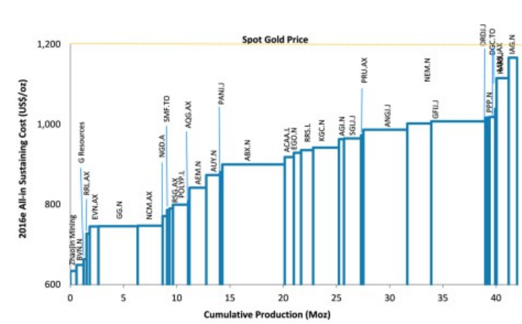
Source: Company data, Morgan Stanley Research (E) estimates

Exhibit 51: EVN has been a leader at cost-out through FY14/15, and has grown its production base through acquisition



Source: Company data, Morgan Stanley Research (E) estimates

Exhibit 52: Successful cost-out, acquisition of low-AISC assets and a weaker AUD places EVN as one of the lowest AISC producers under MS coverage



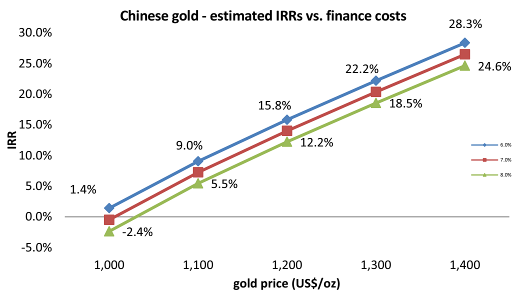
Source: Morgan Stanley Research

China – Zhaojin Mining – OW, PT HK$6.50, US$11bn mkt cap

Investment Summary: Zhaojin is our preferred pick in China's gold space given its cost control and visible volume growth. With new mine, Haiyu, expected to be commence in three years, we are looking for Zhaojin to achieve a production CAGR of 5% in 2014-17e. While the market is concerned about its high gearing level (128% in 2015e), we see this is mitigated by China's favorable funding environment. This includes the government's fiscal easing policy through interest rate and RRR cuts. Besides, Zhaojin management has indicated its plan for potential A-share IPO to help deleveraging.

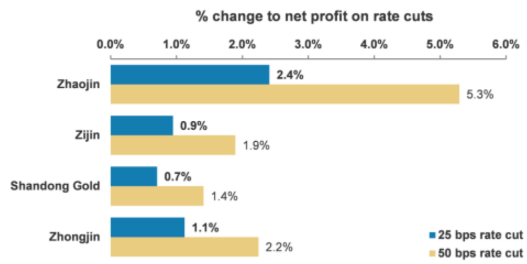
In charts:

Exhibit 53: Lower finance costs in China helps boosts Chinese gold miners' returns – we estimate a 1ppt cut in rates improves IRRs 1.8%



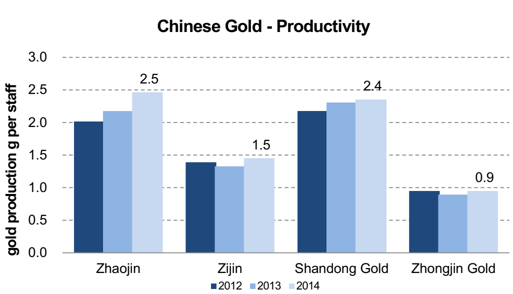
Source: Company data, Morgan Stanley Research estimates

Exhibit 54: We think concerns about Zhaojin's gearing are overdone - lower rates should help



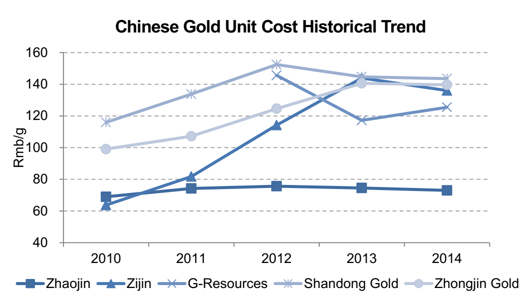
Source: Morgan Stanley Research estimates. Data is for changes in our estimates for 2015-16 net profi

Exhibit 55: Zhaojin has the highest productivity ratio vs. its peers



Source: Company data, Morgan Stanley Research

Exhibit 56: We highlight Zhaojin has achieved stable cost control in the past five years



Source: Company data, Morgan Stanley Research

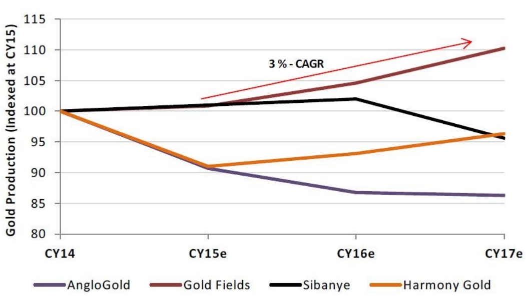
South Africa – Gold Fields – OW, PT ZAR56, US$2.4bn mkt cap)

Investment Summary: Low capex intensive projects with limited execution risk put Gold Fields in a unique position to grow production despite the current weak gold price environment. These attractive growth prospects come from capacity expansions at Tarkwa and Damang mines in Ghana. The proposed expansion of the Tarkwa plant from 13.5 mtpa to 15.5 mtpa requires c.US$45m in capex which equates to US$692/oz of production capacity compared to Gold Fields' current US$1100/oz of production capacity implied by its market cap. We estimate that this expansion will have a 1.5 year payback period. Similarly the Damang processing capacity expansion from 4 mpta to 5.2 mtpa requires an estimated US$3m which has a five month pay back period. This production growth, together with a conservative ramp up outlook at South Deep to a steady state production of 412 koz pa post FY18e, are key drivers of Gold Fields' estimated 3% CAGR production growth over the medium term. The higher production base together with a weaker AUD and ZAR currency outlook is expected to drive a 4% reduction in AISC over the next two years despite inflationary pressures.

A globally diversified portfolio should attract a higher valuation multiple, we argue. Gold Fields is well positioned to benefit from the "Weak labour market to benefit the miners" highlighted under 2.2.1 above and the weakening AUD relative to USD exchange rate (2.2.3 above) with 44% of its CY15e production coming from Australia. Additionally, we argue that the lower operational risk and higher productivity levels of the Australian, Ghanain and Peruvian operations (collectively 91% of production) requires a higher EV/EBITDA multiple than has historically been applied to the conventionally mined SA operations. We expect Gold Fields to re-rate from its 2.8X EV/EBITDA closer towards its global peer group average at 5.2x.

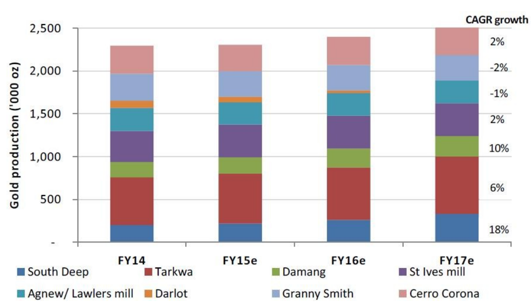
In charts:

Exhibit 57: SA sector leading growth of 3% CAGR – expected to drive AISC down by 4%



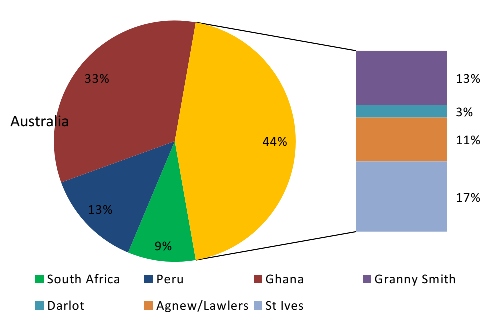
Source: RMB Morgan Stanley Research , Company data

Exhibit 58: Tarkwa, Damang & South Deep – underpin growth outlook



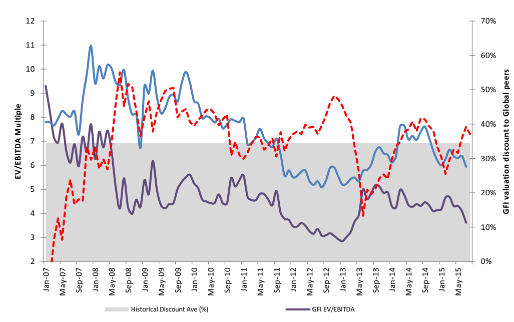
Source: RMB Morgan Stanley research, Company Data

Exhibit 59: 44% of GFI production to benefit from weaker AUD and labour inflation headwinds



Source: RMB Morgan Stanley Research

Exhibit 60: GFI trades at 37% discount to Global peers despite 91% of production ex SA



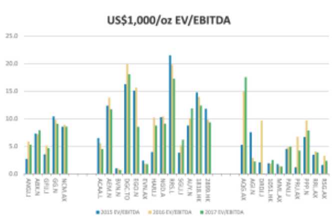
Source: RMB Morgan Stanley Research

5. Impact of gold price on value and cash flow

In this section, we consider the impact of variable gold prices on free-cash generation and earnings under a current spot price and gold +/- US$150/oz.

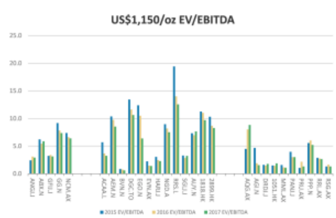
Gold price impact on value: EV/EBITDA

Exhibit 61: Key gold stock picks EVN.AX, BVN.N, GFI.J showing resilient value at US$1,000/oz gold...



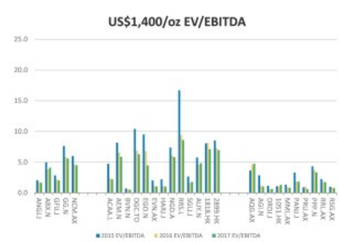
Source: Thomson Reuters, Morgan Stanley Research

Exhibit 62: ...and also at gold prices close to current spot levels...



Source: Thomson Reuters, Morgan Stanley Research

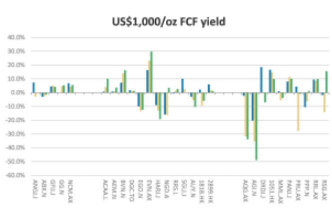
Exhibit 63: ...and higher leveraged names, particularly the juniors, look attractive at US$1,400/oz



Source: Thomson Reuters, Morgan Stanley Research

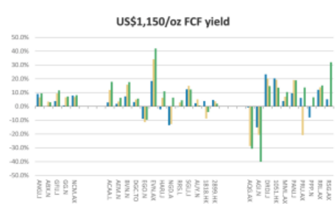
Gold price impact on cash generation: FCF yield

Exhibit 64: Our preferred global gold stocks generate reasonable cash flow relative to direct peers...



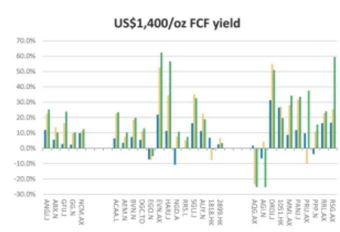
Source: Thomson Reuters, Morgan Stanley Research

Exhibit 65: ...and at close to spot gold prices, most of the sector generates reasonable cash flow...



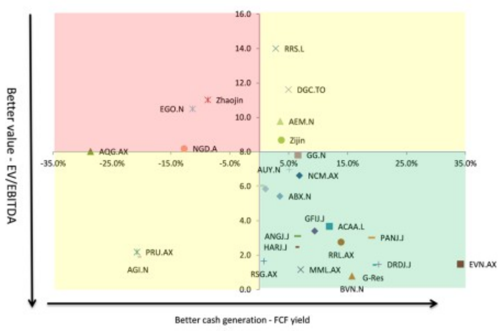
Source: Thomson Reuters, Morgan Stanley Research

Exhibit 66: ...and in similar fashion to EBITDA, at US$1,400/oz levels, cash harvest lifts substantially.



Source: Thomson Reuters, Morgan Stanley Research

Exhibit 67: Tying value and cash generation together – Based on 2016e forecasts and spot gold prices, much of our global coverage is showing reasonable value cash flow...

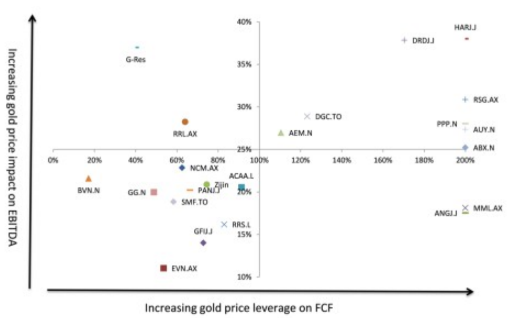


Source: Thomson Reuters, Morgan Stanley Research

Exhibit 68: ...and at US$1,000/oz gold prices the of gold stocks remains largely unchanged - strong cash flow mitigates gold price downside...

Source: Thomson Reuters, Morgan Stanley Research

Exhibit 69: ...and examining the sensitivity to a US$150/oz lift in gold price, who offers the greatest leverage? Resolute Gold, DRD and Harmony (three producers with African assets) show greatest change to a lift in prices.



Source: Thomson Reuters, Morgan Stanley Research

Morgan Stanley Global Gold Coverage

Exhibit 70: Morgan Stanley Global Gold Coverage comparison table 1

Company	Ticker	Rating	Price Currency	Price	Target	Return to Target	Mkt cap (mln USD)	EV (mln USD)	Net Debt (mln USD)	Net Debt/ EBITDA	Gearing (ND/ND+SE)	Debt to Equity	Dividend Yield	Payout Ratio	Analyst
									2015e	2015e	2015e	2015e	2015e	2015e	
Sr Gold Producers (>2Moz)															
AngloGold Ashanti	ANGJ.J	OW	ZAc	9,609	12,500	30%	2,703	4,378	2,695 e	2.4 e	49%	0.91	0.0% e	(320.1%) e	CN
Barrick Gold	ABX.N	EW	USD	7.54	9.50	26%	8,782	21,744	7,821 e	2.32	39%	1.14	1.8% e	(182.9%) e	BH
Gold Fields	GFIJ.J	OW	ZAc	3,329	5,600	68%	1,791	2,925	1,416 e	1.4 e	27%	0.51	2.5% e	13.2% e	CN
Goldcorp	GG.N	OW	USD	12.01	22.50	87%	9,968	12,697	2,289 e	1.44	12%	0.16	4.2% e	(351.8%) e	BH
Newcrest Mining	NCM.AX	EW	AUD	11.44	13.70	20%	6,251 USD	9,008 USD	2,871 USD	2.2	29%	0.45	0.0%	0.0%	BF
Average											**31.2%**	**0.63**	**1.7%**	**-168.3%**	
Mid-tier Gold Producers (<2Moz to >0.5Moz)															
Acacia Mining	ACAA.L	EW	GBp	157	220	40%	979	1,003	(123) e	NM	0%	0.06	0.6% e	50.2% e	AG
Agnico Eagle Mines	AEM.N	OW	USD	26.07	39.00	50%	5,650	6,923	995 e	1.34	19%	0.30	1.2% e	137.3% e	BH
Buenaventura	BVN.N	OW	USD	4.88	8.40	72%	1,240	1,975 e	438 e	1.00	11%	0.19	0.0% e	0.0% e	CA
Detour Gold	DGC.TO	EW	CAD	13.19	17.00	29%	1,689	1,976	282 e	1.92	13%	0.23	0.0% e	0.0% e	BH
Eldorado Gold	EGO.N	EW	USD	3.19	4.50	41%	2,282	2,649	326 e	1.19	6%	0.12	0.5% e	(15.1%) e	BH
Evolution Mining	EVN.AX	OW	AUD	1.27	1.70	34%	1,298 USD	1,168 USD	(140) USD	NM	0%	0.02	1.7%	13.5%	SH
Harmony Gold	HARJ.J	UW	ZAc	892	1,100	23%	272 USD	272 USD	186 USD	1.9	8%	0.13	0.0%	0.0%	CN
New Gold	NGD.A	EW	USD	2.17	3.25	50%	1,106	1,667	461 e	1.87	18%	0.37	0.0% e	0.0%	BH
Polymetal International	POLYP.L	EW	GBp	551	490	-11%	3,543	5,097	1,105 e	1.6 e	50%	1.26	5.0% e	54.9% e	NT
Randgold Resources	RRS.L	OW	GBp	3,951	4,220	7%	5,577	5,910	(8) e	NM	0%	0.00	0.8% e	23.0% e	AG
Sibanye Gold	SGLJ.J	EW	ZAc	1,853	1,700	-8%	1,156 USD	1,155 USD	121 e USD	0.3 e	10%	0.28	6.1% e	52.8% e	CN
Yamana Gold	AUY.N	EW	USD	1.83	3.00	64%	1,718	3,874	1,637 e	2.98	20%	0.31	3.2% e	(38.5%) e	BH
Zhaojin Mining	1818.HK	OW	HKD	4.40	6.50	48%	1,684 USD	3,145 USD	1,513 e USD	4.9 e	56%	1.49	1.2% e	30.0% e	SC
Average											**16.3%**	**0.37**	**1.6%**	**23.7%**	
Jr Gold Producers (<0.5Moz)															
Alacer Gold	AQG.AX	EW	AUD	2.83	3.40	20%	582	344	(329) e	NM	0%	0.00	0.0% e	0.0% e	SH
Alamos Gold	AGI.N	EW	USD	3.07	4.75	55%	777	1,101	30 e	0.49	2%	0.00	0.8% e	NA	BH
DrdGold	DRDJ.J	OW	ZAc	240	330	38%	70 USD	38 USD	(25) USD	NM	0%	0.02	4.3%	108.9%	LM
G Resources	1051.HK	UW	HKD	0.18	0.19	8%	602	362	(390) e	NM	0%	0.00	0.0% e	0.0% e	SC
Medusa Mining	MML.AX	UW	AUD	0.45	0.40	-11%	67	63	(4)	NM	0%	0.03	0.0%	0.0%	SH
Pan African Resources	PANJ.J	OW	ZAc	170	280	65%	215 USD	203 USD	28 e USD	0.4 e	11%	0.21	8.6% e	71.7% e	LM
Perseus Mining	PRU.AX	EW	AUD	0.36	0.37	4%	133 USD	68 USD	(80) USD	NM	0%	0.00	0.0%	0.0%	SH
Primero Mining	PPP.N	EW	USD	2.19	3.75	71%	356	424	90 e	0.91	12%	0.17	0.0% e	0.0% e	BH
Regis Resources	RRL.AX	UW	AUD	2.06	1.30	-37%	734 USD	713 USD	(23) USD	NM	0%	0.05	5.6%	0.0%	SH
Resolute Mining	RSG.AX	UW	AUD	0.38	0.25	-34%	174 USD	192 USD	80 USD	0.6	30%	0.47	0.0%	0.0%	SH
SEMAFO	SMF.TO	EW	CAD	3.06	4.25	39%	678	649	(66) e	-0.43	0%	0.15	0.0% e	0.0% e	BH
Average											**4.9%**	**0.10**	**1.7%**	**18.1%**	
Australia Average											**8.5%**		**1.0%**		
Asia Average											**28.2%**		**0.6%**		
Europe Average											**16.8%**		**2.1%**		
North America/LatAM Average											**13.7%**		**1.1%**		
South Africa Average											**17.4%**		**3.6%**		

Source: Company data, Morgan Stanley Research (e) estimates

Exhibit 71: Morgan Stanley Global Gold Coverage comparison table – Unit costs

Company	Ticker	Gold Production (000 oz)			Growth	Total Cash Costs (USD/oz)			AISC (USD/oz)			EV/Res'v (USD/oz)	EV/Res'c (USD/oz)	Analyst
		2015e	2016e	2017e	15-'17e	2015e	2016e	2017e	2015e	2016e	2017e			
Sr Gold Producers (>2Moz)														
AngloGold Ashanti	ANGJ.J	3,910 e	3,767 e	3,742 e	-4%	733.65 e	752.34 e	756.41 e	953.68 e	952.08 e	935.30 e	76	19	CN
Barrick Gold	ABX.N	6,059 e	5,591 e	5,380 e	-11%	598.38 e	596.12 e	592.65 e	901.55 e	909.58 e	886.34 e	234	116	BH
Gold Fields	GFIJ.J	2,223 e	2,289 e	2,412 e	8%	677.58 e	657.85 e	657.95 e	1,042.92 e	1,024.02 e	999.55 e	61	27	CN
Goldcorp	GG.N	3,596 e	3,549 e	3,736 e	4%	563.36 e	510.04 e	464.80 e	864.69 e	765.62 e	742.63 e	256	148	BH
Newcrest Mining	NCM.AX	2,417	2,497 e	2,368 e	-2%	581.15 USD	570.45 e USD	589.31 e USD	704.48 USD	760.93 e USD	731.38 e USD	143	77	BF
Average					**-1.0%**	**631**	**617**	**612**	**893**	**882**	**859**	**154**	**77**	
Mid-tier Gold Producers (<2Moz to >0.5Moz)														
Acacia Mining	ACAA.L	724 e	833 e	799 e	10%	762.25 e	649.57 e	542.74 e	1,164.76 e	938.63 e	805.74 e	51	51	AG
Agnico Eagle Mines	AEM.N	1,627 e	1,564 e	1,668 e	3%	575.22 e	587.67 e	563.42 e	893.31 e	837.20 e	782.44 e	350	199	BH
Buenaventura	BVN.N	803 e	637 e	550 e	-31%	955.56 e	859.53 e	718.26 e	930.04 e	689.02 e	576.25 e	223	195	CA
Detour Gold	DGC.TO	489 e	543 e	588 e	20%	769.22 e	738.95 e	739.85 e	1,074.01 e	1,000.30 e	981.36 e	132	100	BH
Eldorado Gold	EGO.N	661 e	655 e	852 e	29%	637.54 e	596.38 e	564.02 e	924.09 e	937.35 e	856.54 e	108	82	BH
Evolution Mining	EVN.AX	584	833 e	855 e	46%	489.13 USD	568.94 e USD	535.01 e USD	664.23 USD	758.21 e USD	715.19 e USD	505	251	SH
Harmony Gold	HARJ.J	1,077	1,038 e	1,076 e	0%	1,007.66 USD	935.66 e USD	965.69 e USD	1,322.51 USD	1,201.21 e USD	1,214.39 e USD	8	2	CN
New Gold	NGD.A	412 e	408 e	364 e	-12%	458.03 e	391.56 e	228.17 e	796.43 e	728.52 e	599.06 e	94	65	BH
Polymetal International	POLYP.L	892 e	1,412 e	1,450 e	63%	517.40 e	491.16 e	554.22 e	775.58 e	752.66 e	821.48 e	NM	NM	NT
Randgold Resources	RRS.L	1,108 e	1,138 e	1,161 e	5%	648.46 e	608.04 e	573.28 e	933.46 e	900.25 e	868.12 e	390	279	AG
Sibanye Gold	SGLJ.J	1,605 e	1,638 e	1,509 e	-6%	841.30 e USD	845.91 e USD	895.21 e USD	1,027.43 e USD	1,040.71 e USD	1,075.46 e USD	41	11	CN
Yamana Gold	AUY.N	1,281 e	1,301 e	1,373 e	7%	612.16 e	532.90 e	579.74 e	941.26 e	892.98 e	922.70 e	197	94	BH
Zhaojin Mining	1818.HK	570 e	476 e	538 e	-6%	454.09 e USD	441.14 e USD	454.47 e USD	622.05 e USD	604.30 e USD	622.56 e USD	NA	156	SC
Average					**10%**	**671**	**634**	**609**	**928**	**868**	**834**	**191**	**124**	
Jr Gold Producers (<0.5Moz)														
Alacer Gold	AQG.AX	160 e	136 e	138 e	-14%	622.65 e	676.20 e	707.40 e	704.72 e	802.62 e	833.14 e	104	64	SH
Alamos Gold	AGI.N	269 e	451 e	496 e	85%	776.92 e	659.29 e	618.72 e	1,073.56 e	911.76 e	832.61 e	636	128	BH
DrdGold	DRDJ.J	150	155 e	155 e	3%	1,016.65 USD	919.25 e USD	943.83 e USD	1,125.60 USD	1,000.68 e USD	1,030.62 e USD	18	1	LM
G Resources	1051.HK	288 e	288 e	269 e	-6%	476.04 e	437.99 e	496.44 e	701.38 e	665.67 e	767.13 e	135	49	SC
Medusa Mining	MML.AX	98	122 e	142 e	44%	385.00	411.07 e	384.57 e	1,076.85	1,038.25 e	856.03 e	139	44	SH
Pan African Resources	PANJ.J	196 e	217 e	217 e	11%	881.77 e USD	709.85 e USD	739.46 e USD	1,032.14 e USD	880.88 e USD	900.46 e USD	20	6	LM
Perseus Mining	PRU.AX	212	209 e	227 e	7%	697.19 USD	851.51 e USD	976.28 e USD	836.11 USD	1,082.16 e USD	1,125.51 e USD	20	10	SH
Primero Mining	PPP.N	220 e	226 e	242 e	10%	553.63 e	620.78 e	556.85 e	870.76 e	1,009.87 e	889.96 e	220	132	BH
Regis Resources	RRL.AX	310	287 e	273 e	-12%	705.42 USD	650.58 e USD	643.70 e USD	809.04 USD	728.61 e USD	722.62 e USD	3066	221	SH
Resolute Mining	RSG.AX	329	314 e	321 e	-2%	909.68 USD	820.10 e USD	801.37 e USD	681.07 USD	596.88 e USD	544.99 e USD	68	68	SH
SEMAFO	SMF.TO	259 e	249 e	224 e	-13%	496.61 e	580.15 e	648.69 e	690.54 e	761.80 e	851.01 e	290	130	BH
Average					**10%**	**684**	**667**	**683**	**873**	**862**	**850**	**429**	**78**	
Australia Average					**9.6%**	**627**	**650**	**663**	**782**	**824**	**790**	**578**	**105**	
Asia Average					**-6.0%**	**465**	**440**	**475**	**662**	**635**	**695**	**135**	**102**	
Europe Average					**25.9%**	**643**	**583**	**557**	**958**	**864**	**832**	**221**	**165**	
North America/LatAM Average					**8.1%**	**636**	**607**	**570**	**905**	**859**	**811**	**249**	**126**	
South Africa Average					**2.0%**	**860**	**803**	**826**	**1084**	**1017**	**1026**	**37**	**11**	

Source: Company data, Morgan Stanley Research (e) estimates

Exhibit 72: Morgan Stanley Global Gold Coverage comparison table – earnings multiples

Company	Ticker	NAVPS (USD/sh)	P/NAV	EV / EBITDA 2015e	EV / EBITDA 2016e	P/E 2015e	P/E 2016e	P/CFPS 2015e	P/CFPS 2016e	Free Cash Flow (mln USD) 2015e	Free Cash Flow (mln USD) 2016e	FCF Yield 2015e	FCF Yield 2016e	Analyst
Sr Gold Producers (>2Moz)														
AngloGold Ashanti	ANGJ.J	0.92	7.22x	3.1 e	2.9 e	NM	19.2 e	14.3x	11.7x	190 e	233 e	7.0%	8.6%	CN
Barrick Gold	ABX.N	6.48	1.16x	6.4x	6.8x	NM	26.1 e	4.1x	3.8x	921 e	482 e	10.5%	5.5%	BH
Gold Fields	GFIJ.J	1.73 e	1.33x	2.9 e	2.8 e	13.4 e	11.5 e	97.2x	14.8x	18 e	120 e	1.0%	6.7%	CN
Goldcorp	GG.N	12.47	0.96x	8.0x	6.8x	NM	39.2 e	7.7x	6.1x	190 e	755 e	1.9%	7.6%	BH
Newcrest Mining	NCM.AX	14.40 USD	0.57x	8.3	6.7 e	19.4	17.2 e	47.1x	63.1x	820 USD	449 e USD	13.1%	7.2%	BF
Average			**2.25x**	**5.74x**	**5.22x**	**16.37x**	**22.64x**	**34.09x**	**19.90x**			**6.7%**	**7.1%**	
Mid-tier Gold Producers (<2Moz to >0.5Moz)														
Acacia Mining	ACAA.L	2.84 e	0.84x	5.4 e	2.6 e	28.5 e	6.8 e	4.8x	3.0x	(12) e	132 e	-1.2%	13.4%	AG
Agnico Eagle Mines	AEM.N	24.09	1.08x	9.3x	9.0x	112.7 e	47.4 e	8.1x	8.4x	153 e	217 e	2.7%	3.8%	BH
Buenaventura	BVN.N	11.27 e	0.43x	4.5x	3.9x	NM	193.4 e	7.6x	4.7x	145 e	301 e	11.7%	24.2%	CA
Detour Gold	DGC.TO	10.67	0.93x	13.5x	10.1x	NM	171.5 e	10.2x	8.1x	41 e	99 e	2.4%	5.8%	BH
Eldorado Gold	EGO.N	3.77	0.85x	9.6x	8.7x	NM	41.1 e	11.7x	9.6x	(42) e	(113) e	-1.8%	-5.0%	BH
Evolution Mining	EVN.AX	1.55 USD	0.58x	3.5	3.6 e	8.0x	11.5 e	3.1x	2.3x	94 USD	319 e USD	7.2%	24.6%	SH
Harmony Gold	HARJ.J	0.82 USD	0.76x	5.8	1.6 e	NM	94.7 e	NM	13.3x	(69) USD	20 e USD	-25.5%	7.5%	CN
New Gold	NGD.A	2.30	0.94x	6.8x	5.9x	NM	43.9 e	4.4x	3.9x	(143) e	(193) e	-12.9%	-17.5%	BH
Polymetal International	POLYP.L	1.25	6.70x	7.1 e	6.4 e	11.0 e	9.6 e	NA	NA	248 e	139 e	7.0%	3.9%	NT
Randgold Resources	RRS.L	48.07 e	1.25x	17.7 e	11.9 e	30.0 e	25.5 e	13.5x	14.0x	(31) e	170 e	-0.6%	3.0%	AG
Sibanye Gold	SGLJ.J	0.78 e USD	1.66x	2.6 e	2.2 e	8.7 e	7.3 e	4.8x	5.9x	243 e USD	199 e USD	21.0%	17.2%	CN
Yamana Gold	AUY.N	1.48	1.24x	7.1x	6.3x	NM	NM	3.3x	2.9x	(37) e	127 e	-2.2%	7.4%	BH
Zhaojin Mining	1818.HK	0.84 USD	0.68x	11.2 e	11.7 e	25.0 e	29.3 e	5.6x	5.3x	66 e USD	(152) e USD	3.9%	-9.0%	SC
Average			**1.38x**	**8.00x**	**6.45x**	**31.98x**	**56.83x**	**7.02x**	**6.80x**			**0.9%**	**6.1%**	
Jr Gold Producers (<0.5Moz)														
Alacer Gold	AQG.AX	2.63	0.77x	4.0 e	10.5 e	14.0 e	31.8 e	6.5x	7.1x	86 e	78 e	14.8%	13.4%	SH
Alamos Gold	AGI.N	4.84	0.63x	18.2x	6.0x	NM	36.9 e	17.2x	5.8x	(114) e	(128) e	-14.7%	-16.5%	BH
DrdGold	DRDJ.J	0.19 USD	0.86x	1.8	1.4 e	23.7	9.9 e	3.0x	5.6x	22 USD	13 e USD	30.7%	17.9%	LM
G Resources	1051.HK	0.02	0.93x	1.3 e	0.6 e	8.4 e	7.2 e	3.5x	3.3x	127 e	122 e	21.1%	20.2%	SC
Medusa Mining	MML.AX	0.19	1.72x	1.8	0.6 e	3.3	1.1 e	1.0x	0.8x	5	0 e	7.2%	0.2%	SH
Pan African Resources	PANJ.J	0.10 e USD	1.15x	4.3 e	2.4 e	8.4 e	4.9 e	45.6x	4.7x	5 e USD	46 e USD	2.2%	21.3%	LM
Perseus Mining	PRU.AX	0.29 USD	0.88x	1.1	3.0 e	6.1	5.9 e	1.9x	2.3x	55 USD	(89) e USD	41.6%	-66.6%	SH
Primero Mining	PPP.N	3.45	0.64x	4.3x	4.8x	238.4 e	NM	4.5x	4.6x	(32) e	(2) e	-9.1%	-0.4%	BH
Regis Resources	RRL.AX	0.98 USD	1.50x	2.8	5.5 e	6.1	11.8 e	6.2x	6.8x	71 USD	79 e USD	9.6%	10.8%	SH
Resolute Mining	RSG.AX	0.19 USD	1.45x	1.4	2.5 e	3.9	17.6 e	3.4x	2.9x	(31) USD	(4) e USD	-18.1%	-2.2%	SH
SEMAFO	SMF.TO	2.71	0.85x	4.2x	5.2x	14.8 e	53.2 e	4.9x	5.9x	57 e	79 e	8.4%	11.6%	BH
Average			**1.03x**	**4.1x**	**3.9x**	**32.7x**	**18.0x**	**8.9x**	**4.5x**			**8.5%**	**0.9%**	
Australia Average			**1.1x**	**3.3x**	**4.6x**	**8.7x**	**13.8x**	**9.9x**	**12.2x**			**10.8%**	**-1.8%**	
Asia Average			**0.8x**	**6.3x**	**6.1x**	**16.7x**	**18.3x**	**4.5x**	**4.3x**			**12.5%**	**5.6%**	
Europe Average			**2.9x**	**10.0x**	**7.0x**	**23.2x**	**14.0x**	**9.2x**	**8.5x**			**1.7%**	**6.8%**	
North America/LatAM Average			**0.9x**	**8.4x**	**6.7x**	**121.9x**	**72.5x**	**7.6x**	**5.8x**			**-0.3%**	**2.4%**	
South Africa Average			**2.2x**	**3.4x**	**2.2x**	**13.5x**	**24.6x**	**33.0x**	**9.3x**			**6.1%**	**13.2%**	

Source: Company data, Morgan Stanley Research (e) estimates

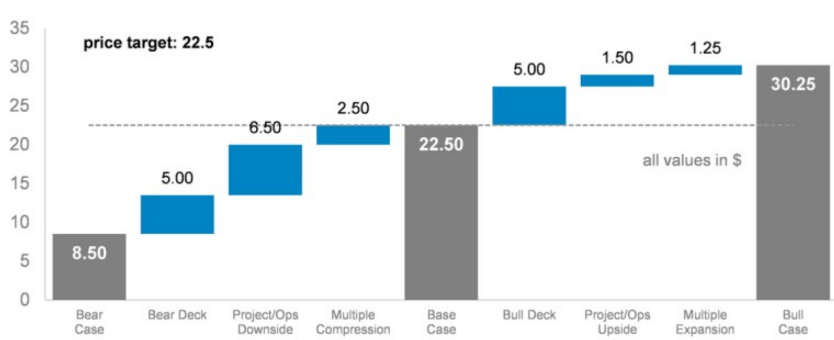
Goldcorp (GG.N, US$12.16, OW, PT US$22.50)

Favorable Valuation, Declining Costs and Capex, Transition to Harvest Stage

Source: Thomson Reuters, Morgan Stanley Research estimates

Price Target US$22.50	60% 1.3x NAV, based on our view of GG's assets, low operating costs relative to peers, and 40% 14x fwd CF, based on two-year avg historical trading range. We believe NAV in conjunction with NT cash flow provides an appropriate balance between future potential and near-term results.
Bull US$30.25 Assuming Bull Case Metal Price Deck	**All about execution.** Throughput, grade upside at Peñasquito, new projects ramp up ahead of Base case, costs decline ~15%, output increases ~10% beyond Base case. Strong execution increases FCF growth driving premium multiples.
Base US$22.50 Assuming Base Case Metal Price Deck	**Transitioning to harvest stage.** Assumes Cerro Negro and Éléonore ramp up in 2015. Production growth commencing in 2Q15 and stabilizing around 3.6-3.7Moz over the next several years. The new projects and drop in capex drive FCF growth.
Bear US$8.50 Assuming Bear Case Metal Price Deck	**Challenges arise.** Assumes ongoing ramp up issues at Cerro Negro and Éléonore impacting FCF and investor confidence. Issues with new projects lead to M&A concerns and drive multiple compression.

Exhibit 73: GG – New Projects and Execution Key Value Drivers Company Data



Source: Company Data, Morgan Stanley Research estimates

Investment Thesis

- We believe Goldcorp is one of the higher quality senior gold producers. Given its recent underperformance and the near term transition to positive FCF (declining costs and lower capex), we believe the stock provides an attractive investment opportunity at these levels.
- With 2 of the 3 key development projects now pouring gold and ramping up, GG is expected to have the best near term growth profile of the senior group, with declining capex and operating costs driving FCF growth.

Key Value Drivers

- **Entering Harvest Stage** – 2015 is a transition year for Goldcorp as it ramps up two new assets. The increase in output and drop in capex and opex drive FCF growth.
- **Declining Costs** – 25% drop 2014-16. AISC expected to stabilize around the $800/oz level over next several years (from $1,045/oz in 2014)

Potential Catalysts

- Execution is critical.
- Cerro Negro and Eleonore ramping up to steady state in 2015.
- Several project studies under way.
- Additional high-grade discoveries in the Red Lake district.
- Gold Price – We calculate that a 5% change in our price deck equates to a 9% change in NAV and 6% move in 2016 CFPS estimates.

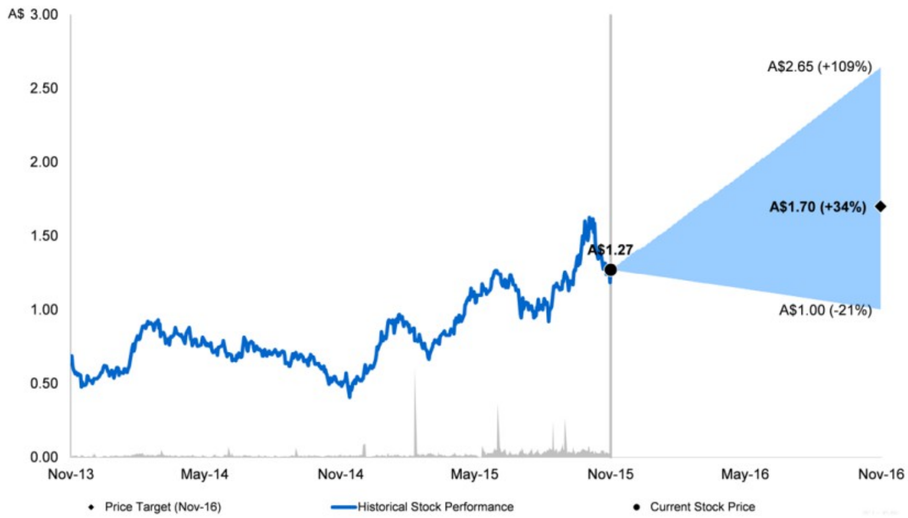
Risks to Our Price Target

- Ongoing ramp up issues at its new assets, driving M&A concerns.
- Unexpected cost appreciation or production declines.
- Inflation and challenging operating conditions in Argentina (Cerro Negro).
- Gold Price movements

Risk Reward

Evolution Mining (EVN.AX, A$1.27, OW, PT A$1.70)

A decline in gold price drives the downside, but a falling AUD could provide offset



Source: Thomson Reuters, Morgan Stanley Research

Price Target A$1.70	DCF-based sum-of-the parts. We use the weighted average of outcomes from our bull-, base- and bear-case scenarios, applying probabilities of 20%, 60% and 20%, respectively. We apply a WACC of 10.3%, CoD of 7%, CoE of 11.6%, and beta of 1.2
Bull A$2.65 14x bull case FY16e EPS	Bull-case gold price (FY16e US$1,325/oz) and AUD/USD (0.78), 10% opex reduction from cost-out measures. Production as per base case
Base A$1.70 7.0x base case FY16e EPS	Base-case gold price (FY16e US$1,101/oz) and AUD/USD (0.72), existing cost base and base-case production projection from existing mines, no expansion.
Bear A$1.00 4.0x bear case FY16e EPS	Bear-case gold price (FY16e US$890/oz) and AUD/USD (0.65), costs escalate 5%, production down 10% on base-case projection, simulating ramp-up issues on Mt Carlton or production outages elsewhere

Investment Thesis

- Following EVN's recent acquisitions of the Cowal and Mungari assets, EVN is one the lowest cost producers on the MS AISC curve. Free cash generation is forecast to grow significantly to +20% over the medium-term
- We see the equity as not pricing in this improvement in cash flow, with EVN trading on P/CF of ~4x and EV/EBITDA of 2-3x over the medium-term multiples versus global mid-tier gold peers at ~7.5x P/CF and 7x EV/EBITDA.

Key Value Drivers

- Stable and growing production in aggregate.
- Production efficiencies, cost reductions.
- Gold price, FX.
- Revenue-linked dividend.
- Newly integrated Cowal operations – delivering to budgeted production.

Upside Risks

- Cost reductions at Cracow, from contractor to owner-operator transition.
- Rapid integration of Cowal operations, and potential reserve increases at the newly acquired operation.
- Other cost-reduction initiatives yet to be devised/announced, increasing margins.
- Exploration success and resource/reserve additions from near-mine exploration activities.
- Gold prices strengthening above our base case on geopolitical uncertainty and rate moves.
- AUDUSD weakening further below our base case.
- Production exceeding base-case expectations.

Downside Risks

- Potential problems with the integration of new projects into the portfolio
- Further degradation of commodity prices/strengthening of AUDUSD compared to our base-case commodity and FX assumptions.
- Mine life reductions through lower than anticipated resources-reserve conversion.

Financial Summary and Price Target Methodology

Price target methodology

Our price target has increased 26% to A$1.70/sh, driven largely by the roll-forward of net debt factored within our base-case SOTP. Our price target is a blend of our base-, bull- and bear-case scenarios and is set as a weighted average of these scenarios. Our bull and bear case scenario valuations have increased 40% and 11%, respectively. The relatively large increase in bull-case valuation is driven by additional upside applied to resource extensions and potential further cost reductions beyond our base-case.

Our weightings are 50% base case, 30% bear case and 20% bull case. The relatively high magnitude of the weightings compared to our base case (20% and 30% vs. 50%) highlights our view of volatility inherent in mining equities, where performance is strongly leveraged to numerous factors including, but not limited to, production levels, capital expenditure and commodity prices.

Exhibit 74: Revised SOTP base-case valuation sees us roll forward our net debt value to Dec16, better reflecting cash flow over the next 12mths

SUM OF THE PARTS VALUATION	A$m	A$/sh	%
Cracow	173	0.12	7%
Pajingo	156	0.11	6%
Edna May	124	0.09	5%
Mt Rawdon	377	0.26	15%
Mt Carlton	301	0.21	12%
Cowal	797	0.55	33%
LaMancha Aus	530	0.37	22%
Exploration, Evaluation Development	80	0.06	3%
Net cash/debt (Est End - Dec'16)	-35	-0.02	-1%
Corporate	-81	-0.06	-3%
TOTAL VALUATION	**2421**	**1.70**	**100%**

Source: Morgan Stanley Research

Exhibit 75: EVN.AX financial summary

ASSUMPTIONS (Yr to Jun)	FY15	FY16e	FY17e	FY18e
Gold US$/oz	1,225	1,117	1,158	1,175
AUDUSD	0.83	0.70	0.65	0.65
Gold A$/oz	1,482	1,596	1,774	1,808
Copper, US$/lb	2.22	2.80	3.25	3.02

Profit Sensitivities (%)	FY15	FY16e	FY17e	FY18e
Currency A$/US$ +10%	0%	-40%	-29%	-30%
Gold US$/oz +10%	0%	50%	46%	48%

Asset level	FY15	FY16e	FY17e	FY18e
Group production, koz	**438**	**793**	**855**	**841**
Cracow	93	95	102	102
Pajingo	66	65	97	97
Edna May	99	89	86	86
Mt Rawdon	102	93	89	83
Mt Carlton (Au eq)	78	87	74	72
LaMancha Aus		134	157	153
Cowal		231	250	250
Group C1 cash costs, A$/oz	**532**	**749**	**754**	**775**
"All-in" sust costs, A$/oz	**1,036**	**1,025**	**1,038**	**1,048**

EARNINGS RATIOS	FY15	FY16e	FY17e	FY18e
Net Profit (A$m)	106	175	230	0
Issued Shares (M)	992	1439	1439	1439
Modelware EPS (A$)	0.14	0.12	0.16	0.16
EPS growth	106%	-16%	31%	-1%
PER	**8.7**	**10.4**	**7.9**	**8.0**
FCF Yield (%)	7%	18%	26%	27%
Dividend (c)	2.0	3.0	2.0	2.0
Dividend Yield (%)	1.6%	2.4%	1.6%	1.6%
Enterprise Value (A$M)	1,074	2,040	1,593	1,138
EV/EBITDA (x)	**4.0**	**3.6**	**2.3**	**1.7**

FINANCIAL RATIOS	FY15	FY16e	FY17e	FY18e
Gearing (ND/ND+E)	**-19%**	**12%**	**-14%**	**-49%**
Current ratio	3.0	6.7	9.2	12.1
EBITDA Margin	**41%**	**44%**	**48%**	**47%**
ROA (NPAT/Assets) %	8%	6%	8%	7%
ROE (NPAT/Equity) %	9%	10%	12%	11%
ROIC	9%	7%	9%	8%

RESERVES AND RESOURCES	Mt	g/t Au	Moz Au	EV/oz
Gold Reserves (December 2014)	135	1.2	5.2	392
M&I Gold Resources	255	1.2	10.1	203
M, I & I Gold Resources	306	1.3	12.7	160

SUM OF THE PARTS VALUATION	A$m	A$/sh	%
Cracow	173	0.12	7%
Pajingo	156	0.11	6%
Edna May	124	0.09	5%
Mt Rawdon	377	0.26	15%
Mt Carlton	301	0.21	12%
Cowal	797	0.55	33%
LaMancha Aus	530	0.37	22%
Exploration, Evaluation & Development	80	0.06	3%
Net cash/debt (Est End - Dec'16)	-35	-0.02	-1%
Corporate	-81	-0.06	-3%
Total Valuation	**2421**	**1.70**	**100%**

PROFIT AND LOSS (A$M)	FY15	FY16e	FY17e	FY18e
Total Revenue	666	1,268	1,467	1,450
Total Costs	-395	-706	-763	-771
EBITDA	271	563	704	679
Depreciation	-152	-317	-346	-345
EBIT	**120**	**246**	**358**	**334**
Net Interest benefit/(expense)	-14	-42	-30	-8
Pre-tax profit	**106**	**204**	**328**	**325**
Tax	0	-29	-98	-98
Minorities	0	0	0	0
Profit attributable	**106**	**175**	**230**	**228**
Other Abnormals Net of Tax	-6	0	0	0
Profit after Non Recurring Items	**100**	**175**	**230**	**228**

CASHFLOW (A$M)	FY15	FY16e	FY17e	FY18e
EBITDA	271	563	704	679
+Div & Other Revenue/(Expense)	-39	6	4	4
- Interest Paid/(Received)	0	-62	-57	-49
-Tax paid	0	0	0	0
-Wkg cap increase, other	51	53	6	-2
OPERATIONS CASH FLOW	**285**	**560**	**657**	**632**
- Capex	-191	-227	-181	-147
FREE CASH FLOW	**94**	**333**	**476**	**485**
- Acquisitions	0	-1110	0	0
+ Other	-4	0	0	0
INVESTING CASHFLOW	**-195**	**-1337**	**-181**	**-147**
Equity Raising / (Buy Back)	248	402	0	0
Debt Raised / (Retired)	-133	825	-120	-100
Dividend Paid	-12	-27	-28	-30
Other	-19	0	0	0
FINANCING CASHFLOW	**85**	**1200**	**-148**	**-130**
FX Adjustments	0	0	0	0
Increase in cash deposits	**174**	**423**	**327**	**355**

SUMMARY BALANCE SHEET (A$M)	FY15	FY16e	FY17e	FY18e
Cash & short term deposits	206	629	957	1,311
Receivables	11	21	23	23
Inventories	67	130	138	137
Property, Plant and equipment	471	1,464	1,280	1,063
Exploration, Evaluation & Development	545	562	577	591
Investments	7	7	7	7
Other assets	7	23	7	7
Total assets	**1,312**	**2,837**	**2,988**	**3,140**
Creditors	56	100	105	104
Borrowings	24	849	729	629
Other current liabilities	23	0	0	0
Other liabilities	85	218	280	331
Total liabilities	**188**	**1,168**	**1,114**	**1,064**
Net assets	**1,125**	**1,669**	**1,874**	**2,075**
Shareholder equity	1,124	1,669	1,871	2,070
Minorities	0	0	0	0
Total Shareholder equity	**1,124**	**1,669**	**1,871**	**2,070**
S/holder equity+Tot. liabilities	**1,312**	**2,837**	**2,986**	**3,134**

Discount rate	Beta	CoE	CoD	WACC
	1.2	11.6%	7.0%	10.3%

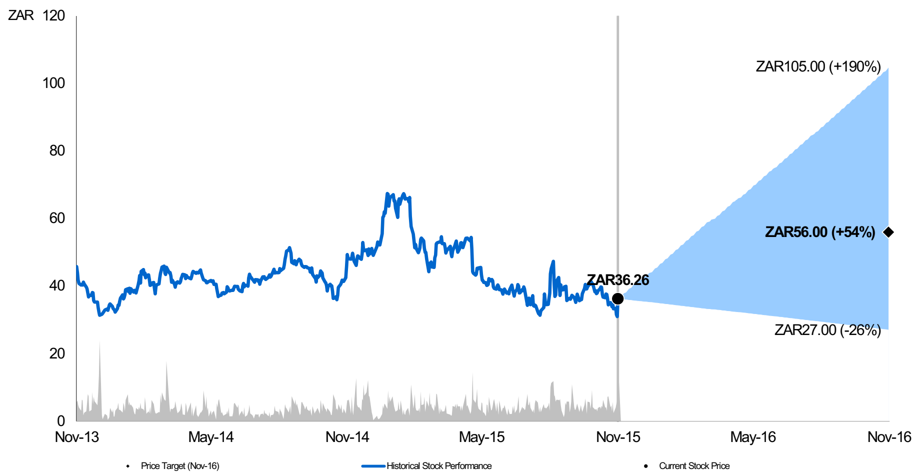
NB: Some ratios may vary from Modelware due to definitional differences

Source: Company data, Morgan Stanley Research (e) estimates

Source: Company data, Morgan Stanley Research (e) estimates

Gold Fields (GFIJ.J, R36.26, OW, PT R56)

Gold Fields – Attractive growth opportunities drive a shift down the South African cost curve



Source: Thomson Reuters (historical share price data), Morgan Stanley Research estimates

Price Target R56

Bull **R105** Combination of LoM DCF / CY2016 EV/EBITDA, at a 8% premium to the 1-year forward sector EV/EBITDA of 5.9x	We assume FY16e US$1,382/oz gold, a 5% weaker ZAR and AUS and DCF over LoM using bull case gold pricing assumption (5.7% real/8.2% nominal discount rate). We assume South Deep reaches steady state production of 650 koz pa in FY17e at an AISC of US$850/oz
Base **R56** Combination of LoM DCF / CY2016 EV/EBITDA, at a 8% premium to the 1-year forward sector EV/EBITDA of 5.9x	We assume FY16e US$1,149/oz gold, R/$13.60 and DCF over LoM using base case gold pricing assumption (5.7% real/8.2% nominal discount rate). We assume South Deep reaches steady state production of 411 koz pa in FY18 at an AISC of US$1014/oz
Bear **R27** Combination of LoM DCF / CY2016 EV/EBITDA, at a 8% premium to the 1-year forward sector EV/EBITDA of 5.9x	We assume FY16e US$976/oz gold, a 5% stronger ZAR and DCF over LoM using bear case gold pricing assumption (5.7% real/8.2% nominal discount rate).

Why are we Overweight?

- We contend that Gold Fields should not trade at a discount to peers because its is competitive on production growth outlook, financial leverage, global diversification and it has zero exposure to conventionally mined operations.
- A globally diversified portfolio helps mitigate risk. Diversification benefits include 53% of FY15e production coming from operations that will benefit from the weakening ZAR and AUD.
- Most attractive growth profile. We see Gold Fields as uniquely positioned to achieve 3% CAGR underpinned by capacity expansion that have low capex intensity and are immediately FCF accretive.
- We argue that the South Deep execution risk has been more than priced in. We see 27% upside even in a scenario where South Deep does not generate any FCF over its life.

Key Value Drivers

- We expect a 2015e AIC of $1,071/oz and 2.2 moz of attributable gold equivalents.
- Management has highlighted the potential for growth from securing additional operations in close proximity to Australian operations which would increase LOM and ensure that spare processing capacity is fully utilised.
- The gold price in USD terms for Ghanaian and Peruvian operations and in ZAR and AUD terms for South African and Australian operations.

Potential Catalysts

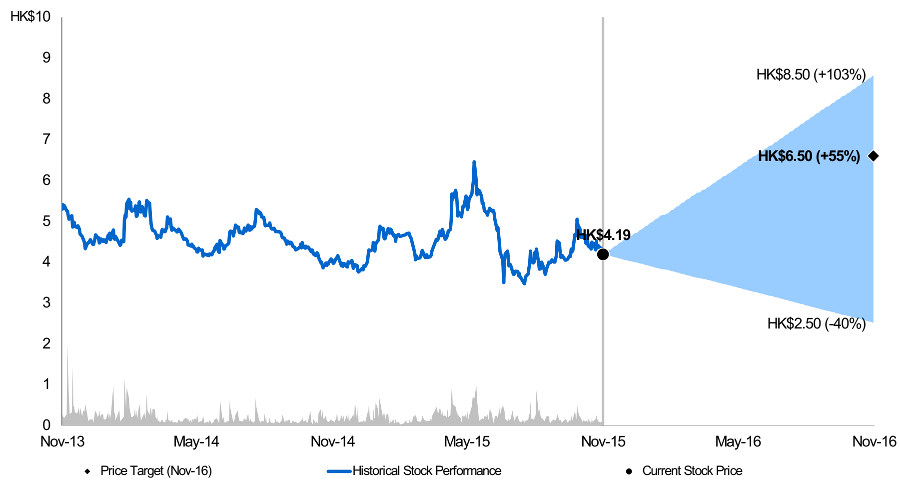
- Positive exploration results at Australian operations and Damang given a restricted LOM.
- Increased capacity at Tarkwa & Damang which will result in reduced costs and increased FCF generation from the West African region.

Risks to Achieving Price Target

- South deep is a key growth asset in the Gold Fields portfolio. Continued infrastructural and operational challenges may result in further ramp up delays.
- Less than 10 years LOM at mines contributing 65% of production places significant reliance on continued exploration success. The sustainability concerns create risk to achieving our price target.

Risk-Reward Snapshot: Zhaojin Mining (1818.HK, HK$4.19, OW, PT HK$6.50)

Risk-Reward View: Deleveraging via A share issue a potential catalyst



Source: Company data, Morgan Stanley Research

Price Target HK$6.50	Our PT is derived using Morgan Stanley's residual income model, which discounts our base-case earnings through 2022, and then normalizes them by our cost of equity of 8.7%. We calculate our cost of equity assumption on a risk-free rate of 0%, a market risk premium of 7.2%, and a beta of 1.2. We assume a long-term ROE of 12.5% and a steady state revenue growth rate of 5% p.a.
Bull HK$8.50 implies 3.1x 2015e BVPS	**Gold prices rise:** 1) Our commodity team's bull-case gold price is US$1,260-1,431/oz for the next five years; 2) the company acquires 1tpa of gold resources. Organic growth the same as in base case.
Base HK$6.50 implies 2.5x 2015e BVPS	**Current gold prices persist; production expansion and modest resource acquisition:** Gold price of US$1,189-1,300/oz over the next five years; 2) acquisition growth of 0.5tpa; 3) start of production at Zaozigou and Qinghe mines.
Bear HK$2.50 implies 1.1x 2015e BVPS	**Gold prices fall and no resource acquisition:** 1) Our commodity team's bear-case gold price is US$907-1,235/oz for the next five years, and 2) excludes acquisition growth of 0.5tpa.3) start of production at Zaozigou and Qinghe mines.

Investment Thesis

- Zhaojin has a high correlation with gold prices at 80%. It is a pure gold player with 89% of its gross profit contribution from gold.
- Compared with its peers, Zhaojin has managed to maintain its costs at a stable level. Management expects future costs to be stable.
- The Haiyu Gold mine, when reaching its full capacity, is likely to contribute 502k oz. of self-mined gold per year, +92% from the 2014 level, at a cost of less than Rmb100/g.
- Valuation looks attractive: We estimate the stock is trading at 1.6x 2015 P/B, below its long-term average (2007-current).

Potential Catalysts

- Gold prices.
- Holding inventory on speculation of higher gold prices later on.
- Significant accretive acquisitions.

Strengths

- Key gold producer with low cash cost.
- Priority in developing / acquiring gold resources in Zhaoyuan City, as its parent is 100%-owned by the local government.

Weaknesses

- Has previously missed earnings owing to holding gold inventory on ASP speculation.
- Production growth hinges on less predictable resource acquisitions.
- Zhaojin may have fewer advantages outside Zhaoyuan, Shandong.

Risks to Achieving Price Target

- **Downside risks:**1) Falling gold prices on stronger US dollar; and 2) execution risk in new projects.3) increased borrowings lead to higher finance costs and weigh on near-term earnings.

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	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)		
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Equal-weight/Hold	**1445**	**43%**	**346**	**44%**	**24%**
Not-Rated/Hold	**91**	**3%**	**9**	**1%**	**10%**
Underweight/Sell	**651**	**19%**	**95**	**12%**	**15%**
TOTAL	**3,397**		**790**		

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