

Gold M&A Spree Is All About Companies With One Big Deposit
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By Elena Mazneva and Thomas Biesheuvel
(Bloomberg) -- Gold companies with one big deposit are now looking like takeover targets.

There's been a flurry of deals or attempts by mid-sized producers in recent weeks. All have something in common: the targets own one large project that either produces gold or is about to start.

After two deals a year ago created companies that dwarf the rest of the industry, other miners are trying to consolidate to remain relevant to shareholders. They're looking for big projects with long lives but which have faced setbacks including operational and legal issues. While the biggest miners may not have much to gain from buying such risky assets, for the smaller producers it's a chance to significantly improve fortunes.

"If there were no issues with these mines they probably would have been taken out a long time ago, or even before they came into production," said James Bell, an analyst at RBC Capital Markets. "It gives the mid-tier miners an opportunity to get hold of large assets."

There has been constant talk about more deals in the past year after Newmont Mining Corp.'s \$10 billion acquisition of Goldcorp Inc. and Barrick Gold Corp.'s \$5.4 billion takeover of Randgold Resources Ltd.

Takeover targets being mentioned include Pretium Resources Inc. and TMAC Resources Inc., which mine in Canada, said Peter Grosskopf, chief executive officer of money manager Sprott Inc. Torex Gold Resources Inc., which operates in Mexico, has also been touted as a potential target, he said.

A spokesman for Pretium said the company doesn't comment on speculation. TMAC and Torex didn't respond to requests for comment.

The sector is more fragmented than the rest of the commodities world, with small assets spread across hundreds of producers and few companies owning a big, single project. With many mid-sized producers facing a constant battle to replace deposits that have relatively short lives, getting hold of a large asset can be an attractive prospect.

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| Recent Gold Deals
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|Kirkland Lake Gold Ltd. agreed a \$3.7 billion
|deal for fellow Canadian miner Detour Gold
Nov. 25 |Corp.

| Endeavour Mining Corp. went public with a
|\$1.9 billion offer for Centamin Plc. Endeavour
| said on Monday that it entered a due
Dec. 3 | diligence agreement.

| China's Zijin Mining Group Co. agreed to pay
| about \$1 billion for Continental Gold Inc.,
| which is developing a gold project in
Dec. 2 | Colombia.

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The recent deals also include assets that have had problems. Centamin's mine in Egypt has been dogged by operational snags and a legal challenge to its mining license after the ouster of former Egyptian President Hosni Mubarak in 2011. Although long seen as a takeover target and admired by Barrick CEO Mark Bristow, until recently it had drawn little real interest.

Continental Gold's Colombian project is in an area once controlled by a Marxist terrorist group and three of its geologists were killed last year by former members of the group.

While Detour's flagship mine is located in mining-friendly Canada, it's a high-cost asset in an industry that's focused on keeping costs down. Kirkland slid 17% when the deal was announced, highlighting investor concerns.

"When you have one asset and you have operational challenges on that asset, then the entire company has problems," Endeavour CEO Sebastien De Montessus said.

The companies that Spott's Grosskopf said have been touted as future targets have also had setbacks. Pretium's Brucejack mine has high ore grades, but has faced production challenges, and TMAC recently had to cut its output guidance.

Read: Torex Gold Denies Talks With TMAC in Response to Holder Letter

The M&A spree in the industry will likely continue as larger producers look to scoop up high-quality assets and smaller miners merge to attract more interest from investors, Grosskopf said.

"There's a strong call from investors for consolidation in the sector," De Montessus said.

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