

Looking for Leverage to Gold; Reviewing Common Metrics Used for Equity Selection

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Summary and Recommendation

As we wrote in our March 24 [industry note](#), we see extreme monetary and fiscal stimulus leading to dollar deflation. In this environment, similar to the set up in 2008, we expect gold price to trade materially higher and we have raised our gold price forecast to \$2,500/oz. With higher prices, gold miners stand to benefit from substantial margin growth, assuming that industry-specific cost inflation remains low. In our opinion, investors should be looking to build positions in gold-related equities that give them exposure to gold. In our experience, investors will gravitate to large-cap producers and select those with the largest annual production of gold. Investors will also look to published gold reserves (and resources) in the ground, and selecting those equities with the largest accumulation. While neither of these selection methods is without its flaws, we have reviewed our coverage and aggregated this data. As we indicated in our January 30 gold industry note ("[Strategies for Outperforming the Gold Miner ETFs](#)"), we continue to recommend investors build a concentrated portfolio of our favorite names that offer gold leverage, but also minimize exposure to production interruptions and provide exposure to the M&A cycle that historically accompanies a gold bull market.

Key Points

- **Reserves and Resources.** Otherwise known as "gold in the ground," reserves and resources estimate the total gold yet to be mined. Reserves underpin the latest mine plan, while resources indicate an estimated pool of gold that may be eventually converted to reserves and added to the mine plan with additional definition drilling and/or changing economic inputs. Not surprisingly, Newmont (NEM—Buy, \$98 PT) has the largest aggregate gold reserves and resources of any producer within our coverage (Exhibit 1). Even on a per-share basis, NEM shows well with RGLD (Buy, \$148 PT) at a distant second. Among the pre-producers, Seabridge Gold (SA—Buy, \$41 PT) has far and away the largest gold reserve base on both an absolute and per share basis. While this metric is indicative of gold leverage, it does not tell the whole story, as this metric does not account for cost structure, mine life, development risk, future share dilution, etc.
- **Annual Production.** Another way of judging gold leverage is by annual gold production and annual gold production per share. Again, as the world's largest gold producer, NEM looks strong on this metric (Exhibit 2). RGLD again comes up a distant second on annual gold production per share. For pre-producers, we have used the company's projected average annual production for comparison. Again, Seabridge Gold shows well due to the large size of the project and the low share count that management has maintained. Looking at annual gold production per USD\$ invested per share takes into account share price into this process. Here, the low current share price of small-cap gold producers (and pre-producers) makes them appear attractive from a gold leverage point of view.
- **These metrics do not tell the whole story.** While investors will seek equity vehicles that provide leverage to gold price, they will often rely on simple gold reserve and annual production metrics. These metrics are indicative, but can also be misleading. These metrics do not incorporate important factors, such as operating cost structure, capital cost structure, mine life, grade & production profile, etc. Also, aggregate company numbers don't tell the whole story, as operations have varying mine lives. We do not recommend using historical comparisons between equity price and gold price, as many gold equities have fundamentally changed vs. prior periods of gold price movements.
- **Recommended portfolio.** We continue to recommend a portfolio our favorite gold names, which we believe provide: 1) gold leverage, 2) defensive balance sheets, 3) operational diversification, and 4) exposure to the M&A wave that usually accompanies a gold bull market. We recommend to overweight the sector and the larger-cap producers that are likely to benefit from fund flows and fundamental margin expansion. Our favorite names include NEM, RGLD, PVG (Buy, \$27 PT), SSRM (Buy, \$44 PT), and CDE (Buy, \$11 PT). We also continue to like small-cap pre-producers SA, GSV-US (Buy, \$3 PT), and SILV-US (Buy, \$9.50 PT).

Analyst certification and important disclosures can be found on pages 4 - 7 of this report.

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Exhibit 1. Reserves and Resources

		Shares out (M)	Market Price (\$US) 3/31 close	2019 Reserves & Resources		Reserves & Resources per share		Annual Production (1)		Years of Production	
				Gold ounces (k)	Silver ounces (k)	Gold oz/sh	Silver oz/sh	Gold ounces (k)	Silver ounces (k)	Gold	Silver
Newmont	2P Reserves	820	45.28	95730	652420	0.117	0.80	6500	40049	15	16
	M&I Resources	820	45.28	74150	481450	0.090	0.59	6500	40049	11	12
Royal Gold	2P Reserves	66	87.71	3800	50000	0.058	0.76	292	2267	13	22
	M&I Resources	66	87.71	NA	NA	NA	NA	292	2267	NA	NA
Pan American Silver	2P Reserves	211	14.33	5121	557200	0.024	2.64	606	23879	8	23
	M&I Resources	211	14.33	10635	797000	0.050	3.78	606	23879	18	33
Coeur Mining	2P Reserves	241	3.21	2564	182941	0.011	0.76	354	12032	7	15
	M&I Resources	241	3.21	2594	244340	0.011	1.01	354	12032	7	20
Hecla Mining	2P Reserves	522	1.82	2712	212151	0.005	0.41	212	10523	13	20
	M&I Resources	522	1.82	5805	217388	0.011	0.42	212	10523	27	21
SSR Mining	2P Reserves	123	11.38	4387	49710	0.036	0.40	352	6239	12	8
	M&I Resources	123	11.38	2781	601231	0.023	4.89	352	6239	8	96
McEwen Mining	2P Reserves	400	0.66	740	8966	0.002	0.02	140	3073	5	3
	M&I Resources	400	0.66	6904	2094	0.017	0.01	140	3073	49	1
SilverCrest Metals (1)	2P Reserves	115	5.22	0	0	0.000	0.00	76	7369	0	0
	M&I Resources	115	5.22	225	22894	0.002	0.20	76	7369	3	3
Gold Standard (1)	2P Reserves	272	0.50	1246	2705	0.005	0.01	123	174	10	16
	M&I Resources	272	0.50	309	1224	0.001	0.00	123	174	3	7
Seabridge Gold (1)	2P Reserves	63	9.35	45300	183000	0.721	2.91	723	3052	63	60
	M&I Resources	63	9.35	16229	95506	0.258	1.52	723	3052	22	31
Pretium Resources	2P Reserves	196	5.67	4200	30100	0.021	0.15	339	522	12	58
	M&I Resources	196	5.67	3400	19000	0.017	0.10	339	522	10	36
First Majestic Silver	2P Reserves	216	6.19	733	85050	0.003	0.39	119	13185	6	6
	M&I Resources	216	6.19	647	58630	0.003	0.27	119	13185	5	4

Notes: Resources are exclusive of reserves; (1) Annual production the projected average production for pre-operating assets; Producing assets, 2020 E production is used.

Proprietary to B. Riley FBR, Inc. April 1, 2020

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Source: Company reports and B. Riley FBR Research

Exhibit 2. Annual Production (gross, per share, per US\$)

	Annual Production (1)		Annual Production oz/sh		Annual Production oz/US\$	
	Gold ounces (k)	Silver ounces (k)	Gold oz/sh	Silver oz/sh	Gold oz/US\$	Silver oz/US\$
Newmont	6500	40049	0.008	0.05	0.00018	0.00108
Royal Gold	292	2267	0.004	0.03	0.00005	0.00039
Pan American Silver	606	23879	0.003	0.11	0.00020	0.00790
Coeur Mining	354	12032	0.001	0.05	0.00046	0.01557
Hecla Mining	212	10523	0.000	0.02	0.00022	0.01108
SSR Mining	352	6239	0.003	0.05	0.00025	0.00446
McEwen Mining	140	3073	0.000	0.01	0.00053	0.01164
SilverCrest Metals (1)	76	7369	0.001	0.06	0.00013	0.01232
Gold Standard (1)	123	174	0.000	0.00	0.00091	0.00128
Seabridge Gold (1)	723	3052	0.012	0.05	0.00123	0.00520
Pretium Resources	339	522	0.002	0.00	0.00031	0.00047
First Majestic Silver	119	13185	0.001	0.06	0.00009	0.00987

Notes: Resources are exclusive of reserves; (1) Annual production the projected average production for pre-operating assets; Producing assets, 2020 E production is used.

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Exhibit 3. Comp Table

Ticker	Company Name	Price (\$US)	Exchange	Rating	Shares (M)	M.Cap	Debt (US\$M)	Cash (US\$M)	EV (US\$M)	Revenues (US\$M)				EBITDA (US\$M)				Operating CF (US\$M)			
										2018	2019	2020 E	2021 E	2018	2019	2020 E	2021 E	2018	2019	2020 E	2021 E
RGLD	Royal Gold	\$87.71	NASDAQ	Buy	65.5	\$5,746	\$215	\$119	\$5,842	\$459	\$423	\$522	\$791	\$329	\$304	\$392	\$632	\$329	\$253	\$353	\$553
NEM	Newmont Corporation	\$45.28	NYSE	Buy	819.9	\$37,125	\$6,138	\$2,243	\$41,020	\$7,253	\$9,740	\$14,687	\$19,201	\$1,966	\$3,158	\$8,161	\$12,481	\$1,827	\$2,630	\$7,141	\$10,756
AG	First Majestic Silver Corp.	\$6.19	NYSE	Neutral	215.8	\$1,336	\$162	\$169	\$1,329	\$301	\$364	\$362	\$525	\$46	\$100	\$147	\$288	\$33	\$140	\$140	\$281
CDE	Coeur Mining Inc.	\$3.21	NYSE	Buy	240.8	\$773	\$295	\$56	\$1,013	\$626	\$712	\$911	\$1,061	\$120	\$124	\$338	\$493	\$84	\$98	\$280	\$390
PVG	Pretium Resources Inc.	\$5.67	NYSE	Buy	195.9	\$1,111	\$464	\$23	\$1,551	\$455	\$485	\$716	\$883	\$202	\$209	\$452	\$606	\$195	\$224	\$440	\$596
SSRM	SSR Mining Inc.	\$11.38	NASDAQ	Buy	123.1	\$1,400	\$284	\$504	\$1,181	\$421	\$607	\$855	\$1,045	\$130	\$228	\$491	\$722	\$89	\$134	\$369	\$538
HL	Hecla Mining Company	\$1.82	NYSE	Neutral	522.1	\$950	\$510	\$62	\$1,398	\$567	\$673	\$717	\$846	\$123	\$170	\$211	\$363	\$94	\$121	\$157	\$263
PAAS	Pan American Silver Corp.	\$14.33	NASDAQ	Neutral	210.9	\$3,023	\$341	\$121	\$3,243	\$784	\$1,351	\$1,814	\$2,177	\$189	\$371	\$750	\$971	\$230	\$282	\$727	\$948
SA	Seabridge Gold	\$9.35	NYSE	Buy	62.8	\$587	\$0	\$19	\$568	\$0	\$0	\$0	\$0	-\$15	-\$7	-\$7	-\$8	-\$9	-\$6	-\$6	-\$7
GSV	Gold Standard Ventures	\$0.50	NYSE	Buy	272.0	\$136	\$0	\$20	\$116	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
MUX	McEwen Mining	\$0.66	NYSE	Buy	400.0	\$264	\$40	\$46	\$257	\$128	\$117	\$202	\$291	-\$45	-\$40	\$52	\$158	-\$36	-\$40	-\$45	\$111
SILV	SilverCrest Metals	\$5.22	NYSE	Buy	114.6	\$598	\$0	\$96	\$502	\$0	\$0	\$0	\$24	-\$6	-\$10	-\$9	\$1	-\$5	-\$5	\$4	\$4

Ticker	Company Name	Price (\$US)	Exchange	Rating	Shares (M)	M.Cap	Debt (US\$M)	Cash (US\$M)	EV (US\$M)	EV to Revenues				EV to EBITDA				EV to Operating CF			
										2018	2019	2020 E	2021 E	2018	2019	2020 E	2021 E	2018	2019	2020 E	2021 E
RGLD	Royal Gold	\$87.71	NASDAQ	Buy	65.5	\$5,746	\$215	\$119	\$5,842	12.7x	13.8x	11.2x	7.4x	17.8x	19.2x	14.9x	9.2x	17.8x	23.1x	16.5x	10.6x
NEM	Newmont Corporation	\$45.28	NYSE	Buy	819.9	\$37,125	\$6,138	\$2,243	\$41,020	5.7x	4.2x	2.8x	2.1x	20.9x	13.0x	5.0x	3.3x	22.5x	15.6x	5.7x	3.8x
AG	First Majestic Silver Corp.	\$6.19	NYSE	Neutral	215.8	\$1,336	\$162	\$169	\$1,329	4.4x	3.7x	3.7x	2.5x	28.9x	13.2x	9.1x	4.6x	39.9x	9.5x	9.5x	4.7x
CDE	Coeur Mining Inc.	\$3.21	NYSE	Buy	240.8	\$773	\$295	\$56	\$1,013	1.6x	1.4x	1.1x	1.0x	8.4x	8.2x	3.0x	2.1x	12.0x	10.3x	3.6x	2.6x
PVG	Pretium Resources Inc.	\$5.67	NYSE	Buy	195.9	\$1,111	\$464	\$23	\$1,551	3.4x	3.2x	2.2x	1.8x	7.7x	7.4x	3.4x	2.6x	8.0x	6.9x	3.5x	2.6x
SSRM	SSR Mining Inc.	\$11.38	NASDAQ	Buy	123.1	\$1,400	\$284	\$504	\$1,181	2.8x	1.9x	1.4x	1.1x	9.1x	5.2x	2.4x	1.6x	13.3x	8.8x	3.2x	2.2x
HL	Hecla Mining Company	\$1.82	NYSE	Neutral	522.1	\$950	\$510	\$62	\$1,398	2.5x	2.1x	2.0x	1.7x	11.4x	8.2x	6.6x	3.8x	14.8x	11.6x	8.9x	5.3x
PAAS	Pan American Silver Corp.	\$14.33	NASDAQ	Neutral	210.9	\$3,023	\$341	\$121	\$3,243	4.1x	2.4x	1.8x	1.5x	17.1x	8.7x	4.3x	3.3x	14.1x	11.5x	4.5x	3.4x
SA	Seabridge Gold	\$9.35	NYSE	Buy	62.8	\$587	\$0	\$19	\$568	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
GSV	Gold Standard Ventures	\$0.50	NYSE	Buy	272.0	\$136	\$0	\$22	\$116	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
MUX	McEwen Mining	\$0.66	NYSE	Buy	400.0	\$264	\$40	\$46	\$257	2.0x	2.2x	1.3x	0.9x	-5.7x	-6.4x	4.9x	1.6x	-7.1x	-6.5x	5.7x	2.3x
SILV	SilverCrest Metals	\$5.22	NYSE	Buy	114.6	\$598	\$0	\$96	\$502	NA	NA	NA	21.3x	NA	NA	NA	NA	NA	NA	NA	NA

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Source: Company reports and B. Riley FBR Research

Exhibit 4. Target Prices, NAVs, Adj NAVs, Valuation Methods

Ticker	Company Name	Price (\$US)	Exchange	Rating	Target Price	Est. Dividend	Shares	M. Cap	Raw NAV	Adj NAV	Adj NAV	Valuation	
													close 3/31/2020
RGLD	Royal Gold	\$87.71	NASDAQ	Buy	\$148.00	69%	1.3%	65.5	\$5,746	\$179.58	\$148.26	0.59x	NAV
NEM	Newmont Corporation	\$45.28	NYSE	Buy	\$98.00	116%	2.0%	819.9	\$37,125	\$104.88	\$97.58	0.46x	NAV
AG	First Majestic Silver Corp.	\$6.19	NYSE	Neutral	\$6.00	-3%	0.0%	215.8	\$1,336	\$5.72	\$5.72	1.08x	NAV
CDE	Coeur Mining Inc.	\$3.21	NYSE	Buy	\$11.00	243%	0.0%	240.8	\$773	\$11.51	\$11.09	0.29x	NAV
PVG	Pretium Resources Inc.	\$5.67	NYSE	Buy	\$27.00	376%	0.0%	195.9	\$1,111	\$46.43	\$27.30	0.21x	NAV
SSRM	SSR Mining Inc.	\$16.80	NASDAQ	Buy	\$44.00	162%	0.0%	123.1	\$1,400	\$39.04	\$36.75	0.46x	EV/EBITDA
HL	Hecla Mining Company	\$1.82	NYSE	Neutral	\$5.00	175%	0.5%	522.1	\$950	\$6.56	\$5.42	0.34x	NAV
PAAS	Pan American Silver Corp.	\$14.33	NASDAQ	Neutral	\$27.00	88%	1.4%	210.9	\$3,023	\$34.10	\$26.64	0.54x	NAV
SA	Seabridge Gold	\$9.35	NYSE	Buy	\$41.00	339%	0.0%	62.8	\$587	\$61.97	\$40.84	0.23x	NAV
GSV	Gold Standard Ventures	\$0.50	NYSE	Buy	\$3.00	500%	0.0%	272.0	\$136	\$9.03	\$3.16	0.16x	NAV
MUX	McEwen Mining	\$0.66	NYSE	Buy	\$3.45	423%	0.0%	400.0	\$264	\$6.85	\$5.65	0.12x	EV/EBITDA
SILV	SilverCrest Metals	\$5.22	NYSE	Buy	\$9.50	82%	0.0%	114.6	\$598	\$9.46	\$9.46	0.55x	NAV

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Source: Company reports and B. Riley FBR Research

*Closing price of last trading day immediately prior to the date of this publication unless otherwise indicated.

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