Worth their weight in gold? It pays to quiz the miners

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The cost figures published by some ASX-listed gold miners are largely nonsense. Any investors relying on them are fooling themselves.

The Fimiston Open Pit mine, known as the Super Pit, was previously owned by Barrick Gold. The company came unstuck when it became clear its margins were only theoretical. Picture: Carla Gottgens/Bloomberg

The all-in sustaining costs published by ASX-listed gold companies are largely bollocks, and any retail investors that rely on them are fooling themselves.

Here's one example from the current car-crash in the Australian gold sector. Dacian Gold reported AISC for the March quarter was $2008 an ounce, suggesting the company was getting a margin of some $600 an ounce.

Then, on June 17, Dacian told shareholders it was planning to wind back production at its Mt Morgan gold hub – a clear indication that the gold price the company needs to stay afloat is well above current levels.

Here's another: West Australian producer Westgold Resources gave its March AISC as $1759 an ounce, when its average received gold price was $2385.

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To the eye of any ordinary investor, that's an average margin of $626 an ounce, on production of 65,426 ounces – $41m cash for the quarter on top of costs.

Westgold finished March with $189m in the bank, compared to $110m at the end of December. If the $97m raised from investors is removed, Westgold's position actually went backwards by $18m.

To be clear, there is no accusation of fraud or dodgy business at either company.

But it helps demonstrate that the all-in sustaining cost benchmark used by gold companies has become a sorry joke.

It used to be worse.


In theory, AISC should include all of the costs of running an operation. Picture: iStock

Until 2013, the production cost metrics used – in theory, at any rate – were C1 (the cost to mine, market and move the product), C2 (C1 plus depreciation and amortisation) and C3 (C2 plus interest costs and other corporate costs not captured in C1).

In practice, the system was a dog’s breakfast. Many reported a ubiquitous “cash cost”, without much further detail, leaving out key costs from disclosures.

Criticism of “cash cost” reporting came to a head in 2012 when, after more than a decade of steady rises, the gold price averaged record levels of more than $US1600 an ounce.

Barrick slumped to a net loss of $US538m that year – including $US3.8bn in impairments, after producing 7.4 million ounces of at what it said was an average cash cost of $US463 an ounce. It was paid an average price of $US1669 an ounce.

That year Newmont booked a $US2.1bn profit after producing 5.6m ounces of gold and selling it for an average $US1662 an ounce – like Barrick, its actual profits were nowhere near its theoretical margins, and the rest of the industry fared little better.

In response to a growing chorus of investor criticism, in 2013 the World Gold Council rolled out the AISC framework.

In theory, AISC should include all of the costs of running an operation – mining and processing, the cost of stripping off overburden, royalties, community costs, administrative and corporate costs, permitting, the capital spending needed to keep the mine running, the lot.

It should, as the World Gold Council says, reflect "as close as possible the full cost of producing and selling an ounce of gold".

In practice there are gaps in the reporting regime you can drive a haul pack through – making it all-but-useless as a tool for retail investors to pick stocks.

For a start, interest payments aren't included, and a debt laden company's operations will always be more marginal than its debt-free neighbour.

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It's also pretty easy to game the guidelines enough to bury your true costs. Under the guidelines, AISC only includes costs of running and sustaining current operations. Spending for growth projects – such as starting a new mine – would not be included.

If, like many smaller players, a company doesn't have a tier-one deposit and is mining over a broader region, there's a fair bit of wiggle room. Is opening up a new pit 10km down the road growth or sustaining capital? How do you account for a development drive to access a new section of an underground orebody? The WGC has guidelines, but they are just that, and there's no audit on AISC figures.

Earmarking capital needed to keep the mine running, calling it growth capital, and leaving it out of your AISC is one way to make quarterly figures look better.

The WGC also recommends gold miners publish an all-in cost figure, which includes development and growth spending not captured by AISC. But few outside of the big miners regularly publish all-in cost figures, and in practice AISC is the first place many retail investors look.

For investors punting on miners at the margins, this matters a great deal.

In 2013, The Australian published a similar article to this one, arguing that the real operating costs of a raft of mid-tier producers were on average 50 per cent above the average $773 an ounce cash costs they were disclosing to the market. When reporting season rolled around in August, that same list of companies collectively took $2.3bn in impairments, as the sector slashed costs and sacked workers, shelved future development plans, amid a round of mine closures.

There’s no sign of a similar price rout in 2022. But rising input costs and the difficulty many are finding in hiring and retaining skilled workers are putting huge pressure on gold miners as prices remain static.