RBS Morgans

Notes from the field

mines and money Hong Kong 2013

Day two of the conference saw Gold Corp kick off the day - the second largest gold company in the world by market cap.

Gold's safe haven status is reminded by events such as Cyprus this week and Goldcorp sees continued gold diversification away from currencies into gold which maintains a positive sentiment for continued gold support.

Grade is king - it's the only thing that matters by the looks.

Stick to the best of breed - miners with good high grade deposits will do well against a backdrop of miners with declining grades and recoveries. Cost containment remains a focus, as well as smart capital allocation.

Inflation is increasing around 15% annually for gold miners - low cost gold producers will continue to perform well, however marginal producers will struggle.

Gold producers have the capacity to outperform – it's a shifting paradigm with competition against ETF investors.

Robert Friedland remains a perma-bull heading up Ivanplats - but we wonder if the forum is actually listening to his sage words. Such great words such as "like a blowtorch through tissue paper" and "the biggest deposit in the world" were dropped like pennies in a wishing well. Toxic bob it seems remains in the stronger forever category, but we're not so sure.

We spoke to assay lab contractors at Intertek - their view is the small-cap junior explorers have already tailed off work with less samples being processed than normal - this reflects our view that the pointy end (microcap explorers) will have to conserve cash and spend prudently over the next 12 months.

Papillon Resources remains our top pick in explorers. Grade remains king and we believe that PIR will release a positive Pre feasibility in 2QCY13. Capex remains in the ~$300m range but opex is looking cheaper from our chat with management. It seems the grinding circuit will be a key focus as the ore is quite hard but not a game changer in our view. PIR remains our top explorer due to its high grade, large project resource and potentially large production.

Further notes:

China steel market feedback? Not great. Most steel makers have been running at full production despite steel pricing falling seeing steel stocks rise. Comments are that the new regime is still some way off implementing most of the infrastructure & housing programs that these steel makers have been anticipating.

Met coal settlements for Q2 occurred overnight but only at levels that give the Aussie producers about $10-20 of margin = pretty much break even profitability.

This all points to a fully supplied/ balanced market very reliant on stable Chinese activity in steel. Limited downside in physical coal but expect iron ore to correct back to the marginal production cost.

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