

SE Finance  
HD Bridging **gold's** disconnect  
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Chesser Resources (CHZ)

VLADIMIR Putin's showdown with the West over Crimea has been good for the **gold** price. The yellow metal's haven appeal has come into its own, driving prices since the start of the year 15 per cent higher to six-month highs.

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It has been a long time since **gold** has reacted in such a strong way to a political crisis somewhere around the world. But, then again, this is a class A drama as it is not everyday that the world is snubbed by a superpower with a macho guy in charge promising to make Crimea a Pussy Riot-free zone, among other things.

That longer-term investors with a nervous disposition are flocking to **gold** was highlighted by the news that the world's biggest exchange traded **gold** fund, the SPDR **Gold** Trust, last week increased its holdings by 10 tonnes -- which is more than Australia's entire annual **gold** output -- to 813 tonnes, indicating that the drastic decline in ETF holdings witnessed last year is well and truly a thing of the past.

It's a 24-hour market but at the time of writing **gold** was trading at \$US1383 (\$1527) an ounce. While the US dollar price remains well short of the (calendar) year averages of \$US1411 an ounce last year and \$US1669 an ounce in 2012, positive margins are being generated by all but the highest cost **operations**.

There has been a rub-off of all that on to local **gold** equities. They have been the best performing stocks in the **mining** sector this year, albeit the recovery being from the trashed levels they were taken to last year when **gold's** 12-year bull run came to an abrupt end. It was during that bull run that there was much discussion about the "disconnect" between **gold equity** values and the **gold** price, in that share prices were not reflecting the bumper prices for the shiny metal.

Talk of a disconnect is back with us, this time because while **gold equity** values have improved, the gains have not matched the **gold** price improvement, remembering that an additional \$US100 an ounce on the price can be the difference from making no money and making plenty.

Where the current disconnect is at is most extreme is in the **gold** developers. That makes sense given they have yet to produce.

But based on the assumption that those with advanced **gold** projects now have a window of opportunity to lock away funding for their developments, it could well be where value currently lies in **gold** equities.

One of the more highly rated **gold** developers out there is Chesser Resources (CHZ), which has been plugging away at its Kestanelik project in northwest Turkey, overlooking the Dardanelles. It was a 29c stock in March last year before the **gold** price got whacked. Yesterday it was a 12.5c stock, meaning while it was taken down by the **gold** price fall, it hasn't been taken back up with **gold's** rise in the Crimean-led recovery.

At yesterday's price, Chesser is a \$27 million company. Back in October last year, when it was knocking around 11c, Macquarie had a 52c valuation on the stock, and a 12-month price target of 24c. More recently, Ord Minnett slapped a 31c a share price target on the stock.

So there just may be something to that earlier thought that value in the gold stocks currently resides with the gold developers, given the longer gold stays on the up, the likelier it is that they will close the disconnect.

Chesser's value argument also stacks up well when the economics of Kestanelik are converted to gold equivalent ounces, a favourite valuation method of investment fund Baker Steel, a 6.1 per cent shareholder.

Assume a \$US1300 an ounce gold price and an initial mine life for Kestanelik of eight years, and after everything is paid for in gold equivalent terms the company would be left holding 203,326 ounces of gold, worth \$US264m at the suggested \$US1300 an ounce price. Make that \$US340m at \$US1500 an ounce. And for a safety test, plug in \$US1100 and the gold surplus of \$US188m is also a multiple of where Chesser is currently at.

Mind you, there is work to do. A pre-feasibility study is due at the end of the June quarter and it is expected that the previous plan for a 63,000 ounce-a-year development could become an 85,000 ounce-a-year plan.

Super low labour and energy costs in Turkey mean that all-in costs for a development are expected to come in at less than \$US600 an ounce.

The capital requirement was last put at \$US88m, including a 30 per cent contingency. It remains a challenge for a company of Chesser's size. But it could be partly offset by bringing in a minority Turkish partner, which is always advisable when operating in foreign climes. More to the point is that a sub-\$US600 all-in cost looks pretty good when viewed against the current spot price for the yellow stuff.

#### TNG Limited (TNG)

PERTH-BASED TNG has been duck-like of late, seemingly motionless on the pond but paddling furiously beneath the water to keep its Mount Peake vanadium-titanium-iron project in the Northern Territory on a development timeline.

The rewards for all that paddling are expected to take shape this year, not that the group's current share price of 4.5c for a market cap of \$25m is saying that is the case just yet.

Last year TNG flagged that its definitive feasibility study into a development would be reviewing and optimising the 2012 pre-feasibility study results, with the expectation that it won't be long now before the market hears about reductions in capital and operating expenditure expectations, the possible introduction of project-offtake partner(s) to help deal with the funding needs, and perhaps the move of the downstream processing plant to a lower cost environment, which is another way of saying not in Australia.

It has to be said that vanadium in this market is presently on the nose because of the debt and fire-damage woes of Atlantic's Windimurra project in WA. But Mount Peake's planned use of its TIVAN hydrometallurgical treatment process, and its co-product production of titanium dioxide and iron, makes it a very different beast. If anything, Mount Peake's main challenge will be finding a home for its planned vanadium as it represents a big chunk of current global production of the stuff.

The good news there is that China has mandated the use of better quality steels in its construction industry, which is where 90 per cent of demand for vanadium ends up. Then there is the buzz building around vanadium redox batteries, which are actually more like six-storey apartment blocks that Japan and others are backing home as the answer to provide the grid-sized storage capability needed to offset the variability from wind power when it ain't blowing, and solar power when the sun ain't shining.

For what it is worth, some sponsored analyst research has just been posted on TNG's website. It arrives at a 28c share valuation for the company, based on it being free-carried with a 40 per cent interest in Mount Peake.

CO chrelt : Chesser Resources Ltd | stgltr : SPDR Gold Trust

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