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A million for Pierre

Gold today has many of the attributes of a corpse, though it does toss and turn now and again. Gold-mining stocks might as well be dead. If anyone cared enough to poke them with a stick, one could find out for sure, but nobody seems to want to bother.

Well, your editor wants to bother, as does his colleague David Peligal. And so—in a very tangible way—does Pierre Lassonde. Over the past several weeks, the chairman of Franco-Nevada Corp. and board member of New Gold Inc. has purchased another million shares of New Gold (NGD on the NYSE MKT; *Grant's*, April 19, 2013). The investment lifts Lassonde's holdings to 7.4 million shares, or 1.5% of the 503.6 million shares issued and outstanding. The price is $5.50.

"What history has shown is that the first movers are the intermediate companies with low-cost production," Lassonde said in response to Peligal's question: How best to play a meaningful upside jolt in the gold price?

Peligal asked under direct instructions from his central-bank-shy and New Gold-owning employer. Let us say, the editor put it to the analyst, that the Fed and the ECB and the BoJ lose control of the monetary situation (of which they never really had control in the first place). What then? Is the world really so sure that the monetary drama is over?

"My view is that I don't know if the gold price is going anywhere for the next six to 12 months," Lassonde said, "but longer term I'm absolutely convinced that it's going to go up considerably. Also, the gold stocks are the most unloved and under-owned stocks in the world. If you look at the institutional holdings, whether it's Canada, the U.S., etc., the most under-owned are the commodities. And gold is even more under-owned. At some point the tide is going to turn, and these stocks will be loved again."

New Gold is an intermediate-sized producer. It owns operating mines in Canada, the United States, Australia and Mexico. It owns development properties in Chile and Canada. The bear story, you know: It's a gold miner. The bull story is that, besides being among the lowest-cost gold miners, it also grows. As to the former, New Gold projects all-in sustaining costs this year of $825 an ounce. That would put it near the bottom of the cost cohort, behind Barrick at $950, Goldcorp at $975, Kinross at $1,000 and Newmont at $1,125. "All-in sustaining cost" is a concept devised by the World Gold Council to shine a bright light on true mining expense. It encompasses not only cash costs but also capital expenditures (the sustaining ones), corporate G&A, capitalized and expensed exploration (again, the sustaining kind) and environmental reclamation costs.

"New Gold's Rainy River project illustrates the company's capacity to grow," Peligal relates. "This is a mine with a 14-year life. It's scheduled for commissioning late in 2016. In the first nine years of its life, it's expected to produce an average of 325,000 ounces of gold (1.44 grams per ton) at an all-in sustaining cost of $736 an ounce. For perspective, New Gold is planning to produce 400,000 ounces this year—clearly, Rainy River will heighten the company's growth profile. Development capital on the order of $840 million is in the budget. Skeptics may mentally pencil in more than that, but it's not a big, complex project. It's open-pit. There's a work force right there. The power lines are in, the roads are there. The first full year of production is slated for 2017. On form, one can believe it. The company's New Afton mine in British Columbia came in on time and on budget. New Afton will produce about 107,000 ounces of gold and 81 million pounds of copper in 2014."

We close with a good word for Detour Gold Corp. (DGC on the Toronto Stock Exchange), a company that—if the chips fall as they might—could manage Canada's biggest gold mine. Detour is currently producing a little more than 100,000 ounces per quarter at all-in, sustaining costs per ounce of not much below the current $1,250 gold price. Sustainable costs will plummet, perhaps to the neighborhood of $850 an ounce, if management can solve the problem of processing its ultra-low-grade ore, which yields just a single gram of gold per metric ton of rock.

Though it's a meager payoff, there's a lot of rock. Detour sits on 15.5 million ounces of reserves at its eponymous Detour Lake property in northeastern Ontario. Enticingly, its property is a geological neighbor to Osisko Mining Corp., which was scooped up on April 16 by Agnico Eagle Mines Ltd. and Yamana Gold Inc. at a price that valued the target at $377.55 per ounce of gold reserves. They should have driven down the road to visit Detour. These days, DGC changes hands at an enterprise value of $134 per ounce.

Detour is leveraged, and it posted a first-quarter operating loss (the $12.5 million loss compared to $9.1 million of interest expense). Counting the proceeds of a February equity offering, the March 31 cash balance totaled $145.2 million.

To the bulls, of whom we are one, Detour's growing pains may soon be forgotten. "Remember," observes John Doody, editor of *Gold Stock Analyst*, "it took Osisko two years to get everything straightened out. [Detour] basically has the same mill. Detour took a lot of precautions because of the problems that Osisko was having. Osisko got straightened out and was taken over."

"I own Detour personally and was a buyer about six months ago," Lassonde tells Peligal. "I told everyone that I believed in the next 12 months there would be two stocks that didn't exist—one would be Osisko and the other would be Detour. So I'm one for two, and I think I will be two for two. Detour still has about a year and a half to maybe two years of tough times ahead of them. But then they're going to hit the sweet spot."

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