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Look what's money

James Robertson, Jr. writes:

Gold overtook the Euro as the second-largest reserve currency behind the American dollar in 2023, a monetary scoop that comes courtesy of Gainesville Coins analyst Jan Nieuwenhuijs. The yellow metal reached 18% of total international reserves, up from 11% in 2008, versus 16% for the euro.

A goldbug may thank the sovereign printers of paper money and manipulators of interest rates. Central bankers added 1,037 tons to their balance sheets last year, the second-highest annual haul after the record 1,082 tons purchased in 2022. And, per a spring World Gold Council survey, one-third of the queried mandarins expected to add more bullion in the coming 12 months, the highest count since the council began collecting data in 2018.

It will surprise no constant reader that *Grant's* remains bullish on gold and the companies that mine it (and that members of its staff are themselves personally positioned). Osisko Mining Corp. (OSK on the Toronto Stock Exchange) and previous picks-to-click Equinox Gold Corp. (EQX on the Big Board) and the Sprott Gold Equity fund are the featured names below.

While central banks and Costco shoppers flock to gold, Western investors can't be bothered. In the first quarter, they sold $4.3 billion's worth of physical gold ETF shares, while the number of shares outstanding in the Van Eck Gold Miners ETF tumbled to a six-year low.

Mining is no easy business. Besides strikes, landslides, wildfires, caribou migrations, etc., margin pressures—in the form of the costs of energy, explosives and labor—are a post-Covid plague.

There's some good news lately, though, in the moderation of the costs of the inputs denoted "consumables" and in the more-than-$2,300 gold price. Together, they point to margin growth. Even so, many miners in favorable jurisdictions trade at fractions of their net asset values.

Osisko Mining Corp is a single-mine company that did not mine one single ounce of gold last year. A developer, it owns 50% of the high-grade, low-cost, potentially-300,000-ounce-per-year Windfall mine in the mining-friendly providence of Quebec. Osisko has extensively drilled the property and taken a conservative approach to the results by capping the grade of its studies at 200 grams of gold per metric ton.

"The thing that kills single-asset mine developers," John Hathaway, managing partner at Sprott, Inc. and portfolio manager of the Sprott Gold Equity Fund (SGDLX), tells me, "is time delay, which translates into more capital requirements and dilution. And with Osisko, I don't think you have that. They don't face the normal gauntlet of scary things that have kept single-asset mine developers in the penalty box for all these years."

On May 2, Osisko sold Gold Fields Ltd. a 50% stake in the Windfall deposit for an immediate C$300 million

Value for the taking

source: The Bloomberg

cash payment and a further C$300 million pending regulatory approval of the construction permits, which is expected later this year. Also, Gold Fields will reimburse Osisko for C$34 million in construction costs and pay C$75 million for further exploration on the 12,523 hectare site.

Windfall is not Osisko's first foray into development. In 2011, the previous iteration of the company reached the production stage on the Malartic mine, the second-largest gold deposit in Canada and now a cornerstone asset of Agnico Eagle Mines Ltd. In 2014, Goldcorp attempted a hostile takeover, which ended when Agnico Eagle and Yamana Gold, Inc. intervened as white knights and took over Osisko 1.0.

The Windfall deposit that Osisko now owns sits 317 kilometers northeast of the Malatric mine and Val-d'Or (Valley of Gold), where Agnico, Wesdome Gold Mines Ltd. and IAMGold Corp. conduct their high-grade mining operations. But even in such elite company, the Windfall drill results stand apart. Gold grades averaging 11.3 grams per ton point to a latent gold value of 4.1 million ounces on the resource base classified as "measured and indicated."

A high-grade property is reckoned as one that holds upwards of eight grams of gold per ton. Windfall's 11.3 grams per ton compares to 9.9 g/t for Wesdome's Eagle River mine and 10 g/t for Alamos Gold Inc.'s Island mine, but falls short of Agnico's Macassa mine's grade of 13 g/t.

Operating at 11.3 g/t, Windfall would rank in the top five Canadian mines in respect to grade. And those estimates could prove conservative. The last two bulk samples came in at 17.8 g/t and 65.5 g/t, 89% and 69% higher than the previous estimates for the respective areas.

Grade is margins, with each extra ounce helping to offset the cost of extraction. Osisko's president, Mathieu Savard, noted at the European Gold Forum in April that a 1 g/t increase in the average grade of the deposit adds 40,000 ounces to annual production on top of the 306,000 ounces expected each year.

At current estimated production levels, management expects all-in sustaining costs (AISC) of around $785, which would rank it even lower than Agnico at $1,179. If producing right now, Windfall would have one of the lowest AISC of any major or intermediate company.

And Osisko has ample optionality on the Windfall deposit to grow. "It's a lot bigger than it may appear," Fred Hickey, founder and editor of *The High-Tech Strategist*, tells me. "And they only have put in the resources there in the feasibility study only to the 1,200 meter level, but they've gone down to 2,400 and have had terrific drill results. And they think that their grades will be much higher, significantly higher than that what they are showing."

Osisko trades at 0.54 times net asset value and at an enterprise value to trailing 12-month Ebitda of 4.37. Cash and cash equivalents total C$316.3 million versus C$128.9 million in debt. The Street is of one mind on Osisko—buy, say the analysts—though not so the C-suite.

In the past six months, insiders have sold a net 164,189 shares for proceeds of C$578,283. Some may have been moved to do so by Canadian Prime Minister Justin Trudeau's tax hike, to two-thirds of capital gains from one-third, which went in effect on June 25.

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Equinox operates eight mines in Canada, Mexico, California and Brazil, which in total produced 564,458 ounces of gold last year. With its low-cost Greenstone mine, one of the largest open-pit mines in Canada, coming online this year, EQX is on the verge of a step-change in operations. Management expects Greenstone to produce 400,000 ounces per year once it ramps up at an all-in sustaining cost of C$90 per ounce.

Since we first had our say (*Grant's*, March 23, 2023), Equinox has completed construction at its Greenstone mine in Ontario and poured its first gold there. Management forecasts production this year to rise to nearly 200,000 ounces, up from the 1,800 ounces produced two months ago.

One is forever being reminded how very different is a gold mine from, say, a nice, clean semiconductor fab. While Greenstone has begun operations, the ramp-up in production may entail its own headaches. Debt, as a result of construction and acquisitions, amounts to three turns of trailing Ebitda or 1.1 times forward 12-month Ebitda. Other Equinox mines are in less accommodating jurisdictions than Greenstone, and local communities are holding up its expansion efforts at the Los Filos mine in Mexico.

As production ratchets up at Greenstone, management projects that costs will fall. At an estimated AISC of between $840 and $940 an ounce, Greenstone, which is set to increase annual production by 40%, would lower company-wide AISC of $1,611. If Greenstone achieves the midpoint of its pro-forma guidance for this year, overall AISC would drop below $1,600 to $1,591. Running at full bore, Greenstone would bring Equinox's total AISC down to $1,440.

Open-pit mines—and Greenstone is one of them—are generally lower-grade and higher-volume operations than underground mines. Greenstone has an average grade of 1.27 g/t; for comparison, Agnico's Malartic weighs in at 1.70 g/t. "The setup for Greenstone," Will Thomson, managing partner of Massif Capital, LLC and an Equinox shareholder, tells me, "is to be one of the highest-grade open pit mines of scale in Canada that produces high volumes at reasonable prices for a very long time."

Equinox's other mines, though higher cost than Greenstone, have the potential to produce more at lower costs through expansion efforts. At the Castle Mountain mine in California, planned development would add 200,000 ounces to a mine that produced 20,837 ounces in 2023 at an estimated AISC of $950. Should the company secure a deal with local communities, it could build a carbon-in-leaching plant at the Los Filos mine in Mexico, more than doubling output there to an average of 360,000 ounces a year at an estimated AISC of $1,100.

In the past six months, insiders have sold 163,310 shares of EQX for proceeds of $797,369. Six analysts rate the shares a buy, while four say hold. Equniox trades at 0.56 times net asset value, according to RBC analysts, and at an enterprise value of 11.5 times trailing 12-month Ebitda.

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The Sprott Gold Equity Fund is an alternative for the diversification-minded investor. The fund holds 61.6% of its assets in gold-mining equities and 16.5% in gold bullion, with the remainder consisting chiefly of royalty and streaming shares and silver plays. Top equity positions include Agnico Eagle Mines Ltd. (5.53%), Alamos Gold, Inc. (4.41%), Equinox (4.36%), Osisko Gold Royalties Ltd. (4.34%) and Osisko Mining, Inc. (3.96%).

Junior miners and early developers make up the largest allocation of the equity portfolio, at 48% of assets. Senior producers and middle-tier companies round out the mining equity portfolio.

The fund, helmed by John Hathaway, returned 9.46% year to date versus 10.21% for the Philadelphia Gold and Silver Index (XAU) with dividends reinvested. Since inception in 1999, the fund returned 8.27% versus a total return of 4.4% for the XAU and 7.8% for the S&P 500. Management fees and expenses sum to 1.45% per annum.

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