GRANT'S
INTEREST RATE OBSERVER®

Vol. 31, No. 18d | Two Wall Street, New York, New York 10005 • www.grantspub.com | SEPTEMBER 20, 2013

Not so golden

Shares of Northern Dynasty Minerals (NDM in Toronto; NAK in New York) plunged by one-third on Monday after Anglo American announced plans to withdraw from the Pebble project in Alaska and take a $300 million impairment charge. Anglo American is walking away from its 50% interest in the huge gold and copper deposit. It exits having spent $541 million of a planned $1.5 billion, to which might be added as-yet-unknown severance costs. If the stock market is a voting machine in the short term, then Northern Dynasty, which is down by 62% since *Grant's* first embraced it in the issue dated Jan. 25, has fared worse than Walter Mondale circa 1984; at least the presidential runner-up carried Minnesota.

Doug Allen, NAK's vice president of corporate communications, was quoted here in January as saying that "Northern Dynasty doesn't have to raise equity, in good markets or bad, because we have this amazing partnership with a significant major who is committed to the project." The icy regulatory environment, combined with a falling gold price, has changed the facts; on Monday's conference call, management declined to rule out equity issuance in 2014.

In the absence of this amazing partnership, Northern Dynasty is left with $22.5 million in cash, no debt—and 100% ownership of a deep out-of-the-money call option (in the shape of the property on which Anglo just turned its back) on a much, much higher gold price. Corporate cash burn, as opposed to project expenses, runs at about three or four hundred thousand per month, according to COO Marchand Snyman.

Anglo's departure has left Northern Dynasty in the company of Rio Tinto, which—thanks to its 19% investment in NAK—has seen its interest in the Pebble deposit double with no new cash outlay. "There is not a fire drill," Allen told *Grant's* on Tuesday morning. "We've got cash, we've got no debt. We have the latitude to take a measured approach to consider the options, whether they be finding a new partner or other strategic alternatives."

Still, it's hard to imagine a white knight buyer offering the same terms as Anglo did back in 2007. "I think the resistance, the opposition, was so strong to the Pebble project that it may have to be dormant for 10 years or so before anybody can take it up again," remarks John Doody, editor of *Gold Stock Analyst*.

When asked if the producing miners have gotten cheap enough to reduce the appeal of longer-dated assets, Doody added: "The way that the gold market comes back, it's always the producers first, because they're the ones who have got viability, they're producing, they've got cash flow. A higher gold price immediately translates to their bottom line, whereas the non-producers, they don't have cash flow and they're always more dependent upon raising money—how are we going to finance this or that—and the upside for them is really the revaluation of ounces still in the ground, which the producers have, too."

Quite so: *Grant's* draws the veil of charity over Northern Dynasty. We were wrong.

As to gold, we remain bullish. It seems passing strange that the price fails to respond to the change of command at the Fed, the looming fight over the public debt limit, those $2.2 trillion of (for now) innocuous excess reserves, or the likely baleful consequences of the long-term suppression of interest rates. Reader Peter Walmsley observes that, at around the $1,300 mark, the gold price is just on top of its all-in cost of production and only slightly higher than the cost of a "good-quality man's suit" at Brooks Brothers. We judge it to be reasonably valued for a world without Janet Yellen or, for that matter, anyone else on President Obama's short list of candidates to succeed Ben Bernanke. For the monetary world we have, we appraise the barbarous relic as cheap.

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