



Gold stocks to buy on the back of stalling US policy and growth

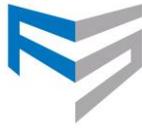
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Investment Theme:

- **Heightened expectations of US growth are fading** in light of no new economic data to suggest the promised fillip. The efforts of the new Trump administration continue to be frustrated on a number of fronts and cannot point to any meaningful progress so far (Obamacare repeal, debt ceiling, and other self-inflicted distractions). Global markets have been patient so far on US policy implementation, but who knows for how much longer? There appears to be a dawning realisation that progress on any policy front in the US will be slow, if at all, as demonstrated by the failed Obamacare repeal attempt.
- The **US dollar Index has fallen 1.8%** since the start of the year, despite a very brief recovery through February. Markets are no longer as certain of further rate increases during the year, and the slower than expected US rate hike cycle will be supportive of gold prices in the near term.
- **Recent dovish statements and March minutes from the US Fed** have dampened expectations of the expected three rate increases in the US this year and revealed concerns of an overvalued US equities market. 10 year US Treasury bond yields have fallen in the past fortnight, while the yield curve spread between 10-year and 2-year Treasuries have narrowed ~30bps to 2.3%.
- **Current volatility (VIX 12.39) remains low compared to historical levels (10 year average of 20.70)**, and with the above headwinds, we believe gold is the way to hedge against USD weakness and slowing US growth.

Recommendation:

- We **recommend a basket of gold equities** from the following companies:
 - Beadell Resources (BDR, \$0.31, mkt cap \$378M);
 - Dacian Gold (DCN, \$2.01, \$387M);
 - Evolution Mining (EVN, \$2.28, \$3,830M);
 - Northern Star Resources (NST, \$4.54, \$2,726M);
 - Perseus Mining (PRU, \$0.345, \$356M);
 - Regis Resources (RRL, \$3.60, \$1,804M);
 - Resolute Mining (RSG, \$1.41, \$1,039M);
 - Saracen Mineral (SAR, \$1.06, \$856M); and
 - St Barbara Mining (SBM, \$2.78, \$1,383M).

**ASX listed intermediate and junior gold miners**

- We have included a table of junior and intermediate ASX listed gold miners that are an attractive way to play the theme, given the recent pull back in domestic gold stock prices, and relative value across the space.

Figure 1: ASX listed gold miners

Company	Code	Mkt Cap, A\$M	FY17e prod, koz	Reserve, koz	Grade, Au g/t	FY17e AISC, USD/oz	P/E 1 yr fwd	P/FCF 1 yr fwd	Net debt / (cash), A\$M
Beadell Resources	BDR	378	145	1,476	1.59	880	10.3x	8.0x	(18)
Dacian Gold	DCN	387	0	1,200	2.00	779	19.6x	N/A	(132)
Evolution Mining	EVN	3,830	830	7,055	1.10	698	10.8x	7.6x	589
Northern Star	NST	2,726	500	1,962	4.70	769	10.2x	9.9x	(273)
Perseus Mining	PRU	356	200	2,078	1.14	1,110	nm	N/A	(55)
Regis Resources	RRL	1,804	315	2,125	1.09	761	12.4x	12.0x	(91)
Resolute Mining	RSG	1,039	300	5,600	1.50	960	8.4x	N/A	(119)
Saracen Mineral	SAR	856	280	1,500	1.80	1,001	9.2x	7.9x	(28)
St Barbara Mining	SBM	1,383	360	4,011	3.40	750	8.4x	6.9x	(31)

Source: Company reports, Bloomberg, Foster Stockbroking estimates, AUD/USD 0.75.



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