

Gold Takeovers Set Record to Boost Fees at BMO, HSBC, Merrill

By Rebecca Keenan - Aug 3, 2010

Global gold mining takeovers set a record this year with “chest-beating” miners chasing deals as the price of the metal surged, boosting fees at advisory banks BMO Capital Markets, HSBC Bank Plc and Merrill Lynch.

Kinross Gold Corp.’s purchase of Red Back Mining Inc. for about \$7.1 billion yesterday took the value of gold deals to \$32 billion this year, accounting for 38 percent of all mining acquisitions, according to data compiled by Bloomberg. That’s more than twice last year’s total for the industry.

“The reason why we may have seen a pickup in activity this year is because gold prices are around \$1,200” an ounce, said [Greg Fournier](#), Hong Kong-based head of Asia Pacific region metals and mining investment banking at Merrill Lynch. “If you have a view that the gold price is strong and is going to go higher then acquiring more reserves or producing properties today makes sense.”

Gold for immediate delivery rose \$6.60, or 0.6 percent, to \$1,189.45 an ounce at 4:21 p.m. in London. Bullion advanced to a record \$1,266.50 in June and is set for a 10th straight annual gain, the longest winning streak since at least 1920, attracting investment by fund managers including [George Soros](#) and [John Paulson](#).

China’s Growth

Takeovers may increase as China, the world’s largest gold producer, backs acquisitions abroad. The nation’s central bank today [said](#) it will help its bullion companies expand overseas by extending credit lines and offering loans. The bank also said it will let more banks import and export gold, and wants to spur the development of yuan-denominated derivatives trading.

“China’s domestic production of gold, albeit being the largest in the world, cannot satisfy its demand,” [Ellison Chu](#), managing director of the precious-metals desk at Standard Bank Asia Ltd., said in Hong Kong.

[Bank of Montreal’s](#) BMO Capital Markets unit remains the top gold adviser, with nine deals worth \$20 billion, according to the data. That’s followed by HSBC and Bank of America Corp.’s Merrill Lynch unit, which wasn’t in the top 20 last year. BMO Capital, which was the senior adviser to Kinross for its Red Back purchase, is the top mining acquisitions adviser this year.

“There’s always a battle of the elephants with gold companies, they like to be the biggest,” [Grant Craighed](#), managing director and co-founder of Sydney-based research company Stock Resource, said after Kinross agreed to buy Red Back yesterday. “It’s a real chest-beating industry.”

Depleting Reserves

Newcrest Mining Ltd. and Resolute Mining Ltd. are among potential takeover targets, according to Midas Fund Inc., which holds Newmont Mining Corp. and Barrick Gold Corp.

“There is likely to be more consolidation in the medium-to long-terms as gold producers struggle to grow organically,” said [Evy Hambro](#), who oversees about \$35 billion in natural-resources funds for BlackRock Inc. “This is a global trend,” said Hambro, whose responsibilities include Blackrock’s [Gold & General Fund](#), which has gained an annualized 24 percent in the past five years.

Gold discoveries have dropped by 4 million ounces a year for the past three decades, Credit Suisse Group AG’s [Michael Slifirski](#) said in November, citing a presentation from Gold Fields Ltd.

“Gold companies have finite assets,” said [Richard Phillips](#), managing director of merger adviser Greenhill Caliburn Pty Ltd. “Producers are under pressure to continue to buy or find gold to replenish the production pipeline and many companies look to do both.”

Biggest Deal

Greenhill, founded by [Robert Greenhill](#), agreed in March to buy Sydney-based Caliburn Partnership Pty for as much as \$181 million. The company is advising Lihir Gold Ltd., which has agreed to an \$8.9 billion takeover from Newcrest, in the second-biggest gold acquisition so far this year.

[KazakhGold Group Ltd.’s](#) \$11 billion bid to take over its parent OAO Polyus Gold to create the largest producer among the former Soviet republics is the biggest deal this year.

China “will place heavy emphasis on supporting large-scale gold producers in their development and overseas expansion plans,” the nation’s central bank said in today’s statement.

Zijin Mining Industry Co., China’s biggest gold producer, this year pulled a planned A\$545 million (\$498 million) purchase of Australia’s Indophil Resources NL after failing to win approval from the Chinese government. The transaction would have given the company a stake in the Philippines’ Tampakan project, Southeast Asia’s largest untapped copper and gold deposit.

Size Matters

“Larger size means greater access to capital markets, geographic and metallurgical diversity, with increased options to redeploy capital,” said New York-based [Tom Winmill](#), who helps manage \$120 million at the [Midas Fund](#), which had an 83 percent gain last year, including dividends. He said there

will “definitely” be more consolidation in the gold industry.

[Barrick](#), the world’s biggest producer, and Newmont, the largest U.S. gold company, have both signaled in the past two months that they may consider “opportunistic” acquisitions. Producers may generate more than \$80 billion in free cash flow through to 2015, according to a Merrill Lynch report on July 27.

To be sure, [elevated valuations](#) and restricted access to loans may damp appetite for takeovers. Europe’s debt crisis and global market volatility curbed the attractiveness of riskier asset classes in the first half, making it more expensive for companies to finance new deals.

Limits on Borrowing

“Potential acquirers and operators have been continually disappointed at how debt markets aren’t functioning,” said [Peter Arden](#), a Melbourne-based senior mining analyst at Ord Minnett Ltd., an affiliate of JPMorgan Chase & Co. “It will constrain” takeovers, he said.

Gold will climb to \$1,500 an ounce by the end of 2011, Merrill Lynch said last month, maintaining a forecast made shortly after Lehman Brothers Holdings Inc. collapsed in September 2008.

“The larger companies like Barrick and Newmont and Goldcorp, Kinross in North America in particular, they are all very active consolidators,” Merrill Lynch’s Fournier said in an interview. “They will continue to be pretty active buying smaller companies and also potentially we’ll see some mergers of some of the senior companies at some point in time.”

To contact the reporter on this story: [Rebecca Keenan](#) in Melbourne at rkeenan5@bloomberg.net