Newmont-Goldcorp deal may finally bring legitimacy back to gold sector — but expect volatility along the way

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Victor Ferreira

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A US$10 billion mega-deal to merge two of the world's premier gold companies may bring legitimacy and, with it, investors back to the largely depressed sector in Canada, experts say.

On Monday, Colorado-based Newmont Mining Corp. announced the US$10 billion acquisition of Canada's Goldcorp Inc in a transaction that will see the creation of the world's largest gold miner. Together, the companies produce 7.9 million ounces of gold per year.

The performance of Canada's gold stocks largely hinges on the price of the precious metal itself, which has been volatile in the last year. Despite recovering more than USD$150/oz since its 52-week low of USD$1,161 in August, gold is still more than $100/oz off its 52-week high. The precious metal hit USD$1,291/oz as of 4 p.m. EST, up about US$2.

Emboldened by the announcement, Goldcorp's stock rose 7.54 per cent to $13.83 — the highest it has closed since October. The deal could be a sign of things to come for the sector, said David MacNicol, president and portfolio manager with MacNicol and Associates.

"(The merger) is good for the sector overall because it helps the market find more price clarity and so now it puts a valuation and a bid in for all the mid-tier producers and larger ones that could get gobbled up as well," MacNicol said.

The move came less than four months after another massive deal shook up the sector. In September, Barrick Gold Corp. announced that it would be absorbing U.K. company Randgold Resources Ltd. in a US$5.4 billion merger. The merger sent Barrick's otherwise struggling stock soaring between the months of September and December, when it rose from $14.30 on Sept. 24 — the day the deal was announced — to a 52-week high of $19.

The two acquisitions have helped bring investor attention back to the limping industry which has been hit hard by low gold prices and negative sentiment over disastrous business deals. Not even a global market selloff that saw several major indexes hit bear market territory helped re-establish gold, which investors flocked to in the past as a safe haven. Barrick's new CEO, Mark Bristow, warned that the industry would become "irrelevant" if it continued to follow the same path.

Although the top names stand to benefit from these mergers, Desjardins Securities analyst Josh Wolfson warned that they may put pressure on the mid and small caps, because the gap in valuations between the new super-caps and small caps has widened. Companies such as Goldcorp, who have often worked with the junior space and had 10 to 20 per cent toe-holds in exploration companies, have also begun to exit partnerships.

“If a company is not able to execute on its own plan absent requiring external capital, it’s going to be very difficult for them to gain relevancy in the market,” Wolfson said.

Further mergers would likely have another positive effect on stock prices, but MacNicol advises against picking out the next candidate.

Rather than “throw darts at a board and come up with what the next takeover candidate is going to be,” he said investors should consider names, such as Goldcorp, that have been damaged by a volatile market over the last year. The sector as a whole is being overlooked, he said, and that may offer investors the opportunity to start a portfolio.

Despite the recent jump in stock prices, MacNicol expects the industry will continue to be volatile and that it will take upwards of a year to see the fruits of the two mergers.

• *Email: vferreira@postmedia.com | Twitter: VicF77*