



Deal-maker strikes gold

Evolution Mining is thinking big as it continues along the path of transformation, writes Roger Montgomery

IN LAST MONTH'S ISSUE

I reviewed Evolution Mining (ASX: EVN), a gold stock going through a transformation. The ink was barely dry when executive chairman Jake Klein, the well-regarded gold entrepreneur, announced the second part of the transition.

To recap, Evolution Mining has bought the La Mancha Australian assets from the multibillionaire Egyptian-based Sawiris family, owners of the Orascom Group. The Frog's Leg and White Foil mines west of Kalgoorlie in Western Australia will add 130,000-160,000 ounces annually, taking combined production in the year to June 2016 to about 570,000 ounces (a 34% increase). Gold reserves increase from 2.6 million to 3.4 million ounces and gold resources from 5.7 million to 8.4 million ounces.

The second part of the transition is buying the Cowal goldmine, south-west of Parkes in NSW, for \$US550 million (\$711 million) from Barrick Mining. Evolution's management believes it can eventually get more than the 250,000 ounces annually out of Cowal and it hopes to improve the reserve and resource profile via exploration success from the tenement package of 6000 square kilometres.

So where does Evolution stand, assuming everything goes according to plan? Shares on issue have jumped from 716.7 million to 1038.7 million to 1438.5 million (of which the Sawiris family would control 31%). At the prevailing share price of \$1.13, the market capitalisation is \$1.625 billion – quite a jump from the \$315 million the company was being valued at in late 2014.

After the capital raising of \$360 million, net indebtedness is expected to be about



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\$590 million and Evolution Mining's theoretical enterprise value is \$2.215 billion. For this we get annual production of about 820,000 ounces, a gold reserve approaching 5 million ounces and a gold resource of 11.8 million ounces.

Importantly, the slightly lower-cost, longer-life La Mancha and Cowal assets will assist Evolution's transformation in more ways than just production and size. For example, the all-in sustaining costs (AISC) – which include net direct cash (CI) costs plus royalty expense,

sustaining capital expense and general corporate and administration expense – is \$928 an ounce for the Australian La Mancha assets and \$853 an ounce for Cowal. This compares with \$1032 an ounce for Evolution's five relatively mature mines – Mt Carlton, Mt Rawdon, Cracow and Pajingo in Queensland and Edna May in WA. The combined AISC cost is expected to come down about 7% to \$960 an ounce and this is forecast to push Evolution's earnings before interest, taxes, depreciation, and amortisation (EBITDA)

to sales margins up from 42% to 46%.

Since the transactions, I expect Newcrest's holding in Evolution of 106 million shares, which will represent 7.4% ownership, could be sold and those investors who missed out on the recent five-for-13 rights issue at 90¢ a share may get another bite of the cherry.

Newcrest owned 33% of Evolution at one stage and Klein concedes how important its relationship with the country's biggest goldminer has been, with access to its knowledge and expertise. But the improved fortunes for Australian listed goldminers, because of lower costs and a lower Australian dollar – which translates into higher revenues in local dollars – means Klein may feel confident going it alone.

Evolution seems to tick a number of boxes. While time will tell how its two very large acquisitions translate into earnings, the market certainly seems to like both moves.

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