

Gold majors lose shine: McEwen

Peter Koven, Financial Post

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Big gold companies have failed to deliver value for shareholders amid soaring prices, according to industry veteran Rob McEwen.

"They're focused on the top line and the bottom line, but not the per-share line," he said in an interview.

"I think you have much better price leverage [as a smaller company]."

Mr. McEwen, who built Goldcorp Inc. into an industry titan, was in Toronto yesterday for the annual meeting of his current company, U.S. Gold Corp., which is exploring in Nevada.

He believes junior and intermediate companies, such as his, will continue to outperform the majors, such as Barrick Gold Corp. and Newmont Mining Corp. Shares of both companies have moved largely sideways over the past two years as gold prices shot from US\$450 an ounce to US\$650.

The majors are stuck in a storm of rising costs for labour and capital goods that are shrinking margins, he said.

But just as important, he thinks they are not keeping shareholders in mind as they grow rapidly through acquisitions that dilute their stock. The majors have been forced to make acquisitions to maintain their production levels as their resource base declines.

He also blames the investment community for encouraging the companies to do deals just to generate banking fees.

"The problem with most mining companies is that very few executives have a big stake. They're waking up thinking, 'How can we get bigger?' They're not thinking about the share price," he said. He holds a 22% stake in U.S. Gold.

Mr. McEwen built Goldcorp into a huge market darling, but had a very public falling out with the company last year after it refused to hold a shareholder vote when it acquired Glamis Gold Ltd. for \$7.5-billion. Today, he dismisses Goldcorp as "another big company" and no longer holds a stake.

John Ing, a gold analyst and president of Maison Placements Canada, agrees with Mr. McEwen that the smaller gold companies are better investments today, calling the performance of the majors "absolutely abysmal." He said the majors are finding out that running mines all over the world is "not an easy task" as they take on bigger and bigger projects and face escalating costs. He also said they are not doing enough exploration, which should be the lifeblood of mining companies.

"These companies have found it cheaper to buy the ounces on Bay Street. But it's a double-edged sword if growth comes at the expense of share dilution," he said.

Barrick chairman Peter Munk vowed to raise the company's share price by whatever means necessary -- including financial engineering -- at its annual meeting last month.

But Mr. McEwen is comfortable that U.S. Gold will find its way by following a path of aggressive exploration and prudent acquisitions that do not drag down the share price. He hopes to make a major discovery in the Cortez Trend in Nevada, which, ironically, would make U.S. Gold a likely target of one of the big gold miners he does not want to become.

"They believe bigger is better," he says. "But if you ask shareholders, it hasn't been."