US Gold chief predicts new wave of miner consolidation

Matt Whittaker | April 08, 2009
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THE gold-mining sector could be poised for another round of consolidation as large producers benefit from the metal's rising price while smaller exploration companies remain hobbled by the credit crisis, US Gold Corp's chief said.

"The market's crying for consolidation," chairman and chief executive Rob McEwen told Dow Jones Newswires.

Mr McEwen is no stranger to market consolidation. He transformed Goldcorp, which he founded, from a $US50 million ($70 million) collection of small companies into a company with an $8 billion market capitalisation.

US Gold last month registered with the US Securities and Exchange Commission to sell up to $US200 million of debt securities, common stock, warrants, subscription rights and subscription receipts.

The gold- and silver-exploration company said it intends to use the net proceeds of the sales, which can be made from time to time, for general corporate purposes.

Mr McEwen said that the cash would be used to finance the company's exploration projects, but that it could also be used for acquisitions. He declined to name companies on which he has his eye.

Junior mining companies - those in exploration phase rather than production - offer opportunities for larger producers to expand shrinking reserves and growth potential, Mr McEwen said.

It can be cheaper for the larger producers to buy smaller exploration companies sitting on deposits than it would be for them to explore for new deposits themselves.

In 2007 and 2008, venture-capital-intensive juniors were able to do a lot of exploration as the mining sector was flush with capital - even though input costs, such as oil, were rising in price.

But last year, the credit crunch decimated the junior sector - although some have started to bounce back. As they ran out of money and their share prices plunged, the market showed a preference for the senior mining companies because they were in production.

Now, gold prices that have moved back up to between $US800 and $US1000 an ounce are filling the coffers of larger producers even though their reserves and production overall are waning.

To maintain a growth potential that attracts investors, the seniors will likely be looking to expand by buying up juniors, Mr McEwen said.

“They are the future growth of the majors and intermediates,” he said.

One of US Gold’s goals is to make its Nevada operations attractive for a major company. But McEwen is also open to getting the project into production under US Gold’s ownership, depending on capital costs.

To say the least, Mr McEwen is bullish on gold prices over the long term.

For now, the metal may test an “extreme low” around $US800, but McEwen expects its price to rise to around $US2000 by the end of 2010. The market could see $US5000 gold by 2012 to 2014, before the metal’s “super cycle” ends, he said.

He bases these projections on a continued erosion in confidence in financial assets.

In the short term, gold may continue benefiting even in a deflationary environment as a source of liquidity, he said. But over the longer term, the metal’s role as an inflation hedge should boost its price as government fiscal stimulus measures take effect.

He referred to those measures as “paper currency printed in excess”.

To illustrate his point with an extreme example of currency debasement, Mr McEwen in the interview withdrew a 100-billion-Zimbabwean-dollar note from his wallet. The bill, which was printed as a result of the African nation’s hyperinflation, had expired at the end of last year. ▪