St. Barbara's Acquisition Offer for Atlantic Gold Highlights 'Valuation Gap'

The valuation gap between Australian and Canadian producers, highlighted by a recent takeover offer, is reviewed in a BMO Capital Markets report.

Source: Streetwise Reports

In a May 15 research note, BMO Capital Markets analysts Brian Quast and Andrew Kaip wrote that St. Barbara Ltd.'s (SBM:ASX) recent offer to acquire Atlantic Gold Corp. (AGB:TSX.V) exemplifies that "the valuation gap between Australian and Canadian producers creates an environment ripe for consolidation." He added that "we view the consolidation of Australian and Canadian midtier miners as being inevitable."

The analysts pointed out that today's valuations favor Australian gold producers, which are trading at a premium to Canadian producers on a price to net present value basis and a price to cash flow per share basis. As such, the Australian companies are nicely positioned to make accretive acquisitions of Canadian assets. Conversely, Canadian producers have been struggling recently.

A perfect example of this theme playing out, the analysts indicated, is St. Barbara's bid on May 14 for Atlantic Gold at a 41% premium to that day's closing price. "The deal values Atlantic Gold at 1.3x net present value 5% at spot, above peer valuations at 0.7x," Quast wrote. The premium is higher than that in recent takeover transactions of junior gold producers, he added, due to Atlantic Gold's Touquoy being a low cost, high margin gold mine with growth potential.

The BMO analysts gave a shortlist of companies that could seize on the current market opportunity. The Australian companies, Evolution Mining, Northern Star, Kirkland Lake and Saracen Mineral Holdings, could be potential acquirers.

Possible Canadian targets include New Gold, Pretium Resources, TMAC Resources and Wesdome Gold Mines.

"From our analysis, we see that, overall, Australian gold producers have several options to expand in Canada in transactions that would be accretive to shareholders on the basis of net asset value and/or cash flow," the analysts concluded.

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