

Precious Metals

Looking for Leverage to the Gold Price Rally

Thematic

Gold is on the move, looking for the companies we expect to be the big winners. Recent events have been very constructive for the gold price and point to it having the potential to move higher in the near-term. Taking this into account we have evaluated the leverage our current coverage universe has to the gold price (Figure 1). The companies with the highest leverage to gold in our coverage universe are: Gran Colombia Gold (TSX:GCM, FV est. C\$6.00), De Grey (ASX:DEG, FV est. A\$0.35) and Lion One (TSX:LIO, FV est. C\$1.35). We note that while Seabridge (TSX:SEA, FV est. C\$29.00) does not have the highest financial leverage to the gold price, it could be a go-to name because of its higher market cap and better liquidity. As well, while we do not have a NAVPS estimate on, Minera Alamos (TSXV:MAI) and RNC Minerals (TSX:RNX, FV est. C\$1.00) both should also react favourably to a rising gold price.

Reversal in Fed stance has gold rallying, up 4% since May 28. At the start of 2019, market expectations were that the US Federal Reserve would be tightening monetary policy, following a December rate hike. However, since then a combination of factors, including weak job numbers and the ongoing trade war with China impacting economic growth have reversed this stance and the market now expects multiple rate cuts before year-end. This has the impact of weakening the US dollar and results in the gold price moving higher. With factors forcing the Fed's dovish stance unlikely to change, the recent rally in the gold price could have legs.

Looking for leverage. While all primary gold companies and those that have gold as a by-product should benefit from a rising gold price, some should outperform. We evaluated our coverage universe (where we have DCF based NAVPS estimates) to determine which companies should benefit the most from a higher gold price. While the primary gold companies demonstrated strong leverage, led by Gran Colombia, it is worth noting that companies with significant gold by-product credits like Aquila Resources (TSX:AQA, FV est. C\$0.36) and SolGold (TSX:SOLG, FV est. C\$1.40) also should benefit from a rising gold price.

Figure 1: Selected Companies from Red Cloud's Precious Metals Coverage – Exposure to Rising Gold Price

Company	Ticker	Price (C\$/sh)	MC (C\$M)	Fair Value (C\$/sh)	NAV (C\$/sh)	Increase in NAV with change in gold price (US\$/oz)				
						\$1,300	\$1,350	\$1,400	\$1,450	\$1,500
Gran Colombia Gold Corp.	TSX:GCM	\$3.99	\$192.7	\$6.00	\$6.00	0%	19%	38%	57%	76%
De Grey Mining Limited*	ASX:DEG	\$0.08	\$38.0	\$0.35	\$0.50	0%	10%	19%	28%	36%
Lion One Metals Limited	TSXV:LIO	\$0.74	\$76.0	\$1.35	\$1.93	0%	7%	13%	20%	27%
Seabridge Gold Inc.	TSX:SEA	\$16.14	\$997.8	\$29.00	\$41.30	0%	5%	9%	14%	19%
Aquila Resources Inc.	TSX:AQA	\$0.20	\$67.7	\$0.36	\$0.60	0%	2%	9%	14%	19%
SolGold plc	TSX:SOLG	\$0.51	\$941.6	\$1.40	\$1.56	0%	2%	5%	7%	9%

*All dollar values in AUD.

Source: Company Reports, Capital IQ, RCKS Estimates.

Click here for more information on [Aquila](#), [De Grey](#), [Gran Colombia](#), [Lion One](#), [Seabridge](#) and [SolGold](#).

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Company Specific Disclosure Details

Company Name	Ticker Symbol	Disclosures
SolGold plc	TSX:SOLG	1,2,3,4
Aquila Resources Inc.	TSX:AQA	1,2
Seabridge Gold Inc.	TSX:SEA	2,4
Lion One Metals Limited	TSXV:LIO	1,2,3,4
De Grey Mining Limited	ASX:DEG	1,2,3
Gran Colombia Gold Corp.	TSX:GCM	1,2,3,4

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