



Endeavour Mining CFO Christian Milau Sees Upside for Gold Prices

Description

Endeavour Mining ([TSX: EDV](#)) has been a tremendous growth story. The company has done a great job buying up troubled mines in West Africa and consolidating operations all under one roof. Since Endeavour started investing in gold mining companies 2009, the firm has grown production to over 400,000 ounces per year from basically zero.

In this part of my conversation with Endeavour CFO Christian Milau, we discuss the state of the mining industry and his outlook on precious metal prices. Below is a transcription of our conversation. It has been lightly edited for clarity.

Robert Baillieul: How would you describe the mood in the mining industry? A year ago the sector resembled the walking wounded returning from a war zone. Has that changed?

Christian Milau: It's a little more stable. In the beginning of 2014 we saw gold retest its lows at around US\$1,180. However, we've seen the gold price pick up a little bit.

There have been a few equity issues. A few private equity groups looking interested in the industry. We saw a couple of hostile bids and takeover offers including **Goldcorp** and **Osisko** which eventually **Yamaha** ended up winning. There was **Hudbay** bidding for **Agusta**. Those things are signs of some life. There are some signs of green-shoots starting to surface.

This year is off to a more positive start. Gold prices are up 5% or 7% this year. We've had a lacklustre period over the last month or two but it certainly has improved. I would say there's a bit more cautious optimism compared to this time last year.

In these conferences, there's fewer groups, fewer companies, and fewer investors. I would hope to think that maybe more quality is there. A lot of those groups just haven't survived because it has been a tight market and getting financing for exploration companies has been tough.

You would probably see a few less people at these conferences, but I do think that maybe it's a little better quality. It's looking a little brighter than it did last year for sure.

RB: Interesting. [I was chatting with Nolan Watson](#) at **Sandstorm Gold** last week and he used the exact same term; cautious optimism.

CM: Yes, for sure.

RB: What is your outlook for gold prices and related products like the **SPDR Gold Trust** ([NYSEMKT: GLD](#)) right now?

CM: Our view over the medium and longer term is that the gold price is well supported.

There are issues such as the global debt situation. A lot of governments are over-leveraged, have too much debt, and are printing a lot of money. The U.S. dollar is becoming less of the reserve currency. It's a long, long process, there's certainly some support over the longer term.

In the short term it's really hard to predict where it goes. The way we plan is to look at a conservative price and hope for the better. I don't know what a medium or long term period would be, but certainly over a number of years we expect to see a stronger gold price.

Our strategy has been growth. We haven't been shy to say that we're a company that has been looking to grow and we have been over the last number of years. We still believe that this is a good market and a good place to be growing. Time will hopefully prove it to be a profitable exercise as well.

RB: I think I speak on behalf of a lot of resource investors here when I say there's a scepticism towards growth. During the last cycle, so many companies blew billions of dollars of shareholder capital on marginal projects just for the sake of expansion. How would you describe your company's capital allocation policy?

CM: Certainly, looking at capital allocation is doubly important in the current market. Capital is definitely tighter than it used to be when raising money. When you talk to the bankers they'll give that story for sure.

Our regional strategy was to look at opportunistic situations where we felt the company might be undervalued, a turnaround, or a fix where [with our help] they could achieve their real potential. Ultimately we felt we were buying something that actually had some upside to it and wasn't just adding ounces for ounces sake and growth for the sake of growth. We would add some quality growth also.

The recent Avion acquisition is a good example where we added a mine which was in the middle of a new expansion, which we did finish. It's now a slightly larger mine. Also we got the Houndie project, which maybe you could argue wasn't for free, but it certainly wasn't being given the attention it deserved and we want to give it the attention now.

Acquiring assets that are underdeveloped alongside a producing gold mine is hopefully one of those strategies that will help us not suffer as badly in this market. In the sense, it provides more upside when you can build that mine to its true potential and maybe add some resources and reserves.

The Agbaou mine is a classic example where when Etruscan was acquired in 2010; you got the Youga mine which is probably what you're mostly paying for and we got the project in the Ivory Coast. Now that's it's been built, some of the analysts that are valuing the Agbaou project anywhere from 30% to

50% of the value of our whole company.

It only cost us \$145 million approximately to build it. You couldn't go out and acquire a mine for \$145 million producing over 100,000 ounces per year. That adds some value. Our team has that sort of proven track record in that sort of gold mine construction in West Africa.

RB: Thanks Christian for taking the time to speak with The Motley Fool community. Just as we wrap up, is there anything you would like to tell our readers?

CM: It kind of comes out of the pages of Warren Buffett, it's best to be looking at industries when no one else is interested. That's certainly what we've gone through over the last year.

I'd like to think that better days are certainly ahead and we're starting to turn the corner here as an industry. Certainly a lot of us are trying to position ourselves to be coming out of this downturn in the gold market to be stronger and more cost disciplined. That's certainly what we had a reputation of not being in the last part of that cycle.

I think there are some interesting opportunities with upside here. When no one is interested in investing in a industry that's the best time to invest.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSEMKT:GLD (SPDR Gold Trust)
2. TSX:EDV (Endeavour Mining Corporation)

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Date

2025/07/01

Date Created

2014/05/24

Author

rbaillieul

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