



Alamos Gold Inc. and AuRico Gold Inc. Bet on Better Days for Gold with a \$1.5 Billion Merger Deal

Description

Gold stocks have been a hard sell recently. Despite optimistic predictions of bullion reaching \$2,000 an ounce, the price has struggled to touch \$1,200 this year. But two Canadian gold companies, **Alamos Gold Inc.** ([TSX:AGI](#))([NYSE:AGI](#)) and **AuRico Gold Inc.** ([TSX:AUC](#))([NYSE:AUC](#)), are betting that gold mining has a bright future. Today the companies announced a friendly merger agreement.

The combined company would have a market cap of more than US\$1.5 billion, making it a mid-tier producer with major assets in Ontario and Mexico. Alamos is an established gold producer that owns and operates the Mulatos Mine in Mexico, and has exploration and development activities in Mexico, Turkey, and the United States, while AuRico's core projects include the Young-Davidson gold mine in northern Ontario and the El Chanate mine in Mexico.

The new company, to be named Alamos Gold Inc., will also include a spin-off firm, AuRico Metals Inc., which will hold AuRico's Kemess project in British Columbia and will be capitalized with US\$20 million in cash.

"This merger with Alamos represents a logical business combination that will create a premier intermediate gold producer with a diversified asset base that includes three low-cost producing mines, a significant organic growth profile, a pipeline of high-quality development projects, all of which is underpinned by a solid balance sheet and led by an experienced and proven management team," said AuRico president and CEO Scott Perry in a statement.

The merged firm is expected to produce between 375,000 and 425,000 ounces of gold in Canada and Mexico this year, and has the potential to grow organically to as much as 700,000 ounces of gold annually.

Shareholders of both Alamos and AuRico are expected to benefit from the exposure to the significant value potential of the Kemess project and from stable, diversified royalty revenue via ownership in the new spin-off company.

Of course, gold companies are very much tied to the price of bullion, which has been weak over the past few years, mainly because of two factors: the ongoing strength of the U.S. dollar and the absence of inflation, reducing the precious metal's appeal.

However, gold bugs have reason to be optimistic, according to a recent report by **Citigroup**, analysts forecast that while gold won't make much progress this year, things will start to turn around in 2016. "Gold is still extremely vulnerable during 2015 but the 2016 to 2020 period could be supportive for gold," analyst Jon Bergtheil said in the report.

Citigroup said it expects gold volume on the Shanghai Gold Exchange to recover after the recent pullback in prices, with large Chinese retailers already reporting increased buying interest in April. The bank also said it foresees some relaxation of Indian import restrictions meant to combat the current account deficit. China and India are major buyers of gold.

The Alamos-AuRico merger is, in many ways, a sign of the times. Smaller gold producers will struggle to survive as long as gold prices remain stubbornly low. But an expected boost in prices starting next year could make the merged company a worthwhile addition to your diversified portfolio.

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:AGI (Alamos Gold Inc.)
2. TSX:AGI (Alamos Gold Inc.)

Category

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

Date

2025/10/01

Date Created

2015/04/13

Author

dwatt

default watermark