



## Investors: Is This Gold Stock a Buy on Takeover Rumours?

### Description

It was a banner year for gold stocks. After spending the majority of the past decade trading sideways, the price of gold finally broke through key resistance points in 2019. Breaking through the psychological \$1,400 an ounce barrier, it closed the year just above \$1,500 an ounce.

As of writing, the S&P/TSX Global Gold Index is up by 41% over the past year, more than doubling the 19% gain of the S&P/TSX Composite Index. It has been a long time coming for gold investors. The good news is that the price of gold is beginning to form a base above \$1,500 an ounce. This is a good sign for the industry, and as a result, we are seeing lots of M&A chatter.

In fact, consolidation has already begun. In the second half of 2019, **Kirkland Lake Gold** [picked up Detour Gold](#) for \$4.9 billion, and China Zijin Mining Corp acquired **Continental Gold** and **Endeavour Silver** in deals worth \$1.4 billion and \$2.5 billion, respectively.

Who is next on the list? At the top of everyone's radar is **Pretium Resources** (TSX:PVG)(NYSE:PVG). It is a name that has been circling the M&A chatter for a couple of years now. Why is there such interest in Pretium? Once the Detour Gold deal closes, Pretium — a large single-asset company — will be the last of its kind.

Pretium operates the high-grade Brucejack Mine in British Columbia. It was a high-grade, low-cost mine and a very attractive asset. I used the term *was* purposefully. Last year, Pretium produced 376,000 ounces of gold at all-in sustaining costs (AISCs) of US\$764 an ounce. Unfortunately, it has been a rough year for the company.

To start the year, it guided to 405,000 ounces on AISCs of US\$825 an ounce at the mid-range. Unfortunately, it has had to make revisions to guidance, and not in a good way. Pretium has since revised AISCs upwards by 12% to US\$925 per ounce. Unfortunately for investors, the once promising Brucejack Mine may never deliver on the promise of AISCs of US\$500 per ounce. This doesn't make it a bad mine; it just can't be considered one of the lowest-cost producers given there is no clarity on expected costs heading into 2020.

The complexity of Brucejack's geology has made for an unpredictable mine, which has led to Pretium [disappointing investors](#)

on a number of occasions. It is also likely one of the main reasons there hasn't been a serious buyer — yet. Now that Detour is off the board, there certainly must be interest in a high-grade mine operating in one of the safest jurisdictions in the world.

What kind of premium will investors receive? Gone are the days when the majors would scoop up the smaller players at ridiculous valuations. No, the industry has learned from its mistakes. Of the major deals from the past couple of years, the biggest premium has been the 24% premium that Kirkland Lake Gold paid for Detour Gold.

I expect this type of premium to be the ceiling. At the time it announced the Detour Gold acquisition, Jeff Parr, Chairman of Kirkland Lake Gold had this to say about Pretium: "Pretium was fully priced. You're going to have to pay a premium to get it. It's going to be competitive. We just felt more bullish on Detour."

Is a deal on the way? Perhaps. However, I would argue that Pretium shareholders would be better served by a more stable year at Brucejack. If the company can better navigate to complexity of Brucejack and re-position it as a low-cost mine, it would be a far more rewarding catalyst for shareholders.

If, however, Pretium continues to struggle with costs, a buyer and new operator may be just what shareholders need. Regardless, Pretium appears to offer good value at today's prices.

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