Brett Richards: The miner seeking gold with growth

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Take record low interest rates. Add natural disasters in New Zealand and Japan, and dollops of turmoil in the oil rich Middle East and North Africa. Shake, and garnish with the ever-present threat of spiralling inflation, sovereign debt implosions and more than a dash of uncertainty. The result, commodity market bulls will tell you, is the perfect blend for rising gold prices.

This grim recipe has boosted the yellow metal by almost 40 per cent since the beginning of last year, up from less than $1,100 per troy ounce to comfortably around $1,500 today. But the heady gains have done nothing to dim the enthusiasm of many in the City and on Wall Street.

In fact, though official forecasts from the big banks remain within striking distance of prevailing levels, put your ear to the ground and you can catch whispers of $3,000, $4,000 and even $5,000 an ounce – well above the real terms, inflation adjusted peak of just over $2,400 struck way back in 1980.

The figure finds little favour with Brett Richards, the chief executive of the gold producer Avocet Mining. Earlier in the year, when prices were hovering below $1,400, he said $5,000 gold would call for tanks on the ground in London. "The analogy to seeing that level of social unrest in reflection to the gold price is still true," he says now, pointing out that, while the capital's streets remain free of armoured vehicles, "we have certainly seen a lot of unrest" around the world.

"I put the analogy of tanks running in the streets to some form of consistent military unrest in multiple parts of the world – we're seeing that in North Africa right now, we're seeing it in the Middle East and Syria," he adds.

"Compounding that, we're seeing economic fragility in the US, we're seeing the dollar retract substantially in a short period of time and [that is] counterbalanced by the fact that the US is going to go through an election in about 18 months. So, you have all these dynamic forces pushing at the price of gold."

He reckons gold prices are likely to spend the year in the range of $1,350 to $1,550, not far off HSBC's latest forecast for an average of $1,525 in 2011. "I don't think it's going to make a strong run to $1,800 or $2,000 gold, and I just don't think it's going to go back to $1,100 or $1,200 gold either," he says.
Besides, contrary to the received wisdom that ever-higher gold prices are unquestionably good for producers like Avocet, Mr Richards adds that too strong a rally can bring its own problems for companies that operate in far-flung corners of the globe.

Avocet's own flagship Inata mine is in West Africa's Burkina Faso, and it is also active in nearby Guinea. Until last year, it was also focused on South-east Asia, but, with Mr Richards at the helm, announced an agreement to sell those assets in a $200m deal in December.

Too high a gold price, he explains, can in some cases mean that Governments in Africa and South-east Asia take a "different view of your business when they feel that you're making a substantial margin".

"That's a problem," he says. "They want to change mining codes, they want to change royalty structures, they want to change ownership structures and [in] some extreme cases – and certainly not where we're doing business – there's the threat of nationalisation.

"So, for our business, $1,300 to $1,500 gold price is good and consistently underpinned by [a] reasonable economic background in order to support those figures."

Still, the fact remains that the recent rally in gold prices has boosted mining equities. Avocet, for its part, has benefited from this trend, with its share price booking healthy gains. It is, however, possible to argue that the share price rally would have gone further had it not been for the hedge the company assumed in connection with an acquisition in 2009. It commits Avocet to selling part of what it digs out of the ground for a fixed price of $970 per ounce – far below the spot price.

Mr Richards is candid about the fact that the hedge has proved less than helpful, not merely in light of the rising gold price but also because the company's flagship Inata project has been delivering excellent results. But, while he does not rule anything out, he remains focused on growing production, which would lower the level of output that goes towards servicing that commitment, as opposed to rushing to buy out the hedge.

"The mark-to-market liability [on the hedge] right now is about $180m, so it's a fairly substantial number," he says, noting that if Avocet were to buy it out and then there was a sudden slump in the gold price, it would look like a poor decision.

"I think as a standalone, what do we do with the hedge today, we bite down on our teeth and we continue to deliver into it."

The focus on growth is evident from the string of updates showing progress at both the Inata mine in Burkina Faso, and at exploration projects in Guinea. Only yesterday, for example, Avocet announced an updated mineral resource of 1.1 million ounces at its Koulekon gold project there, thus growing its resource base in West Africa to an encouraging 3.78 million ounces.
Highlighting the plans, Mr Richards says the fact Avocet, which booked total gold production of 71,708 ounces in the first quarter of the year, had a hedge was already priced into the shares, leaving ample scope for gains as gold prices rise, or as the company's projects deliver results – or both. "I agree [that] philosophically we'd prefer not to have it, but the story is not about our hedge," he adds.

"The story is about our growth – the growth where we're going to take this company to 500,000 or 600,000 ounces in four years' time, and then on to a million ounces after that on the land we have and on the cash we'll have.... Let's just bring as many ounces on as we can, [and] we dilute the effect [of the hedge] and our margins will naturally increase."

**Beyond the drill reports**

A former professional ice hockey player, Brett Richards' background is in the steel business. He began at Co-Steel in 1985 and left as the senior vice-president of human resources in 2002. He went on to work at Kinross Gold, and then Katanga Mining, before arriving at Avocet two years ago. He took the helm last year, and since then has been busy refocusing the company on West Africa.

When he is not scrutinising drill reports, Mr Richards spends the rest of his time keeping track of his children – he has four – or on the golf course. "I was just at the Masters down in Augusta, and was able to enjoy a couple of just absolutely beautiful days at the most pristine golf course in the world," he says. Though he prefers playing, he adds that watching the Masters tournament is "almost a religious event".