

PPM

CAD \$0.125

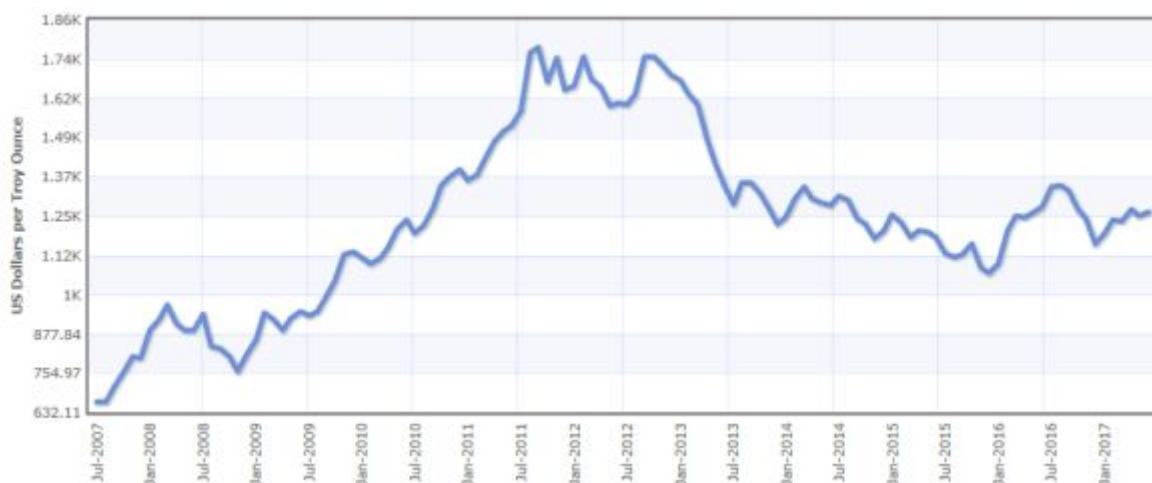
Spec.

HIGH**S**

Black Fox sold

Since initiating coverage on Primero Mining Corp post its takeover of Cerro Resources in May 2015, the company has with a weaker US Dollar gold price battled with the quality of its balance sheet. To rectify this situation, the company has sold its Black Fox gold mine. The culmination of all these factors has led to disappointing share price performance.

We held the view that the Black Fox operations when commercial would have added a significant new gold stream to production, which proved to be the case over the course of 2015 and 2016. However, the fall in the gold price from its 2011 peak and subsequent slow price recovery has proven to be a major headwind for the company. The following chart shows the gold price over the past decade:



Source: index Mundie

The development of the Black Fox project did come at a time when the gold price had weakened. This price weakness has put a strain on the company's balance sheet as the projects value fell and project debt required support. It has been the slow recovery in the gold price that has negatively impacted the value of the company.

The sale of the Black Fox mine for US\$35 million will see the consideration for the sale used to pay down debt. As at 30 June 2017 the company had a total debt of US\$140 million. To use the cash to reduce debt is prudent.



We do however believe that the sale of the Black Fox mine does limit the company's future gold production growth profile. With debt remaining on the balance sheet, albeit at a lesser amount, we believe the balance sheet provides limited growth support.

The market has not reacted positively to the sale, with the share price sold down post the announcement on 10 August 2017. Subsequently, the share price has advanced modestly, which we will use as an opportunity to exit the stock.

Consequently, we have changed our recommendation for Primero Mining to a sell all, and coverage of the stock will cease immediately.

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Snapshot PPM

Primero Mining

Primero Mining Corporation is a Canadian based gold and silver producer with a mining operation in Mexico. Primero's San Dimas mine currently produces some 90,000 to 100,000 ounces of gold and 6.0 to 6.5 million ounces of silver per annum. Following the successful merger with Cerro Resources, the yet to be developed Cerro Del Gallo silver project in Mexico now forms part of the company's development and exploration portfolio. The merger with Cerro Resources forms the first part of Primero's plan to become a leading mid-tier gold and silver producer in the Americas. The Cerro Del Gallo silver project compliments the existing development and exploration opportunities the company already has at both its San Dimas mine and its Ventanas gold and silver project also in Mexico.

Market Capitalisation: \$24.01m

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