

ABG

GBP £6.19

Core

HIGH**B**

Hunting in Tanzania, for gold that is

Tanzania hosts one of the best gold provinces in the world and therefore demand for exposure to gold projects in the country, and Africa in general, is very strong. Sensing an excellent opportunity to create value, Barrick Gold Corporation (ABX) announced the creation of African Barrick Gold (ABG) and pocketed US\$824 million in the process.

African Barrick Gold's assets in Tanzania include four mines and a suite of exploration projects. At the end of 2009 the company had 61.8 million ounces in proven and probable reserves, and in that year produced 716,000 ounces of gold at an average cash cost of US\$545 per ounce.

Looking quickly at the detail of the transaction leading to the birth of ABG, the newly formed group sold 101 million shares or around at GBP5.75 which was equivalent to about 25% of its equity. This meant that Barrick Gold Corporation (ABX) has retained a 73.9% interest in ABG. It was a win-win all round and the theoretical market capitalisation on the day that ABG listed was US\$3.55 billion. Less than three months later and the value of ABG has risen by around US\$200 million.

Given the backdrop of a rising gold price the quality of ABG's assets almost guarantees success. Since listing the company's share price has fallen as low as GBP5.20 and bounced off a high of GBP6.50. It will probably not be long before ABG establishes new highs.

Most of Tanzania is south of Lake Victoria and east of Lake Tanganyika. Kenya is to the northeast and Mozambique to the south and the Democratic Republic of the Congo to the west, with Rwanda and Burundi squeezed in between.

A key feature of this part of the world is the great chain of lakes marking the Great African Rift. Here the earth's surface has cracked apart and might have formed a new sea. Deep fracturing associated with the split has resulted in volcanic activity and provided access to mineralising fluids that have created a large number of world class gold deposits.

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Moving on to the technicals for African Barrick we can see that there is not a huge amount of price data to work with. That said, the price action has formed a clear sideways channel with support at c.520p/530p and resistance at c.630p.

The upper and lower boundaries of this channel have been tested on several occasions and offer good support and resistance levels despite the limited price data. The daily MACD had been pointing lower since the April high but have now reversed to the upside suggesting that the trend is now up.

The price action is currently testing the upper bound of this consolidation range having recently put in a new high of 650p on the 8th of June. We would like to see a clear breakout above this level which would then give us an upside target of c.740p based on the upward projection of the width of the range.

STATE OF PLAY

At the end of 4Q09 the company's share of gold in reserves and resources was around 25.9 million ounces.

ABG produced 716,000 ounces in 2009, which was up sharply on a year ago. Guidance for 2010 is for between 800,000 and 850,000 ounces. The average cash cost in 2009 was US\$545 per ounce, but with a higher level of gold production the unit cash cost is expected to fall to between US\$450 and US\$500 per ounce in 2010.

The plan is to produce at least one million ounces per year by 2014, and double production over the next decade. The increases in production will come from expanding resources and production at existing mines and from new projects. The exploration budget for 2010 is US\$20 million. At the very least we would expect a net increase in gold resources of 0.5 to 2.0 million ounces.

Higher gold production in 1Q10 on a year ago set the course for a solid 2010. EBITDA rose 143% to US\$100 million, and net profit increased by 356% to US\$53 million. Operating cash flow for the March quarter was

US\$67 million, and at the end of the period cash and cash equivalents stood at US\$320 million.

Capital expenditure was US\$38 million, of which US\$18 million was deferred stripping at the North Mara open pit, expanding the mining fleet at Buzwagi and underground development at Tulawaka. The balance of expenditure was spent on underground development at Bulyanhulu.

All the company's mines have satisfactory head grades although North Mara and Buzwagi only have gold recoveries of around 80%. The recovered gold grades in 1Q10 were Bulyanhulu underground mine (8.3 g/t), Tulawaka transitioning to underground (3.40 g/t), North Mara open pit (2.59 g/t) and Buzwagi open pit (1.9 g/t).

Production and costs at Tulawaka were negatively impacted by equipment failures that led to milling low grade stock pile. A drop in grade increased the cash cost from US\$413 per ounce in 4Q09 to US\$558 in 1Q10.

During the quarter exploration identified a new zone of gold mineralisation 4 kilometres northwest of the Tulawaka plant. Visible gold was observed in some RC drilling rock chips. These holes returned high grade intersections including 5 metres at over an ounce of gold.

Underground drilling at the Tulawaka East Zone extended high grade gold shoots in the AZM-124 Zone. Better results included 4 metres at 18.45 g/t and 4.6 metres at 34.5 g/t gold.

A wholly-owned subsidiary of ABG is taking over the company that owns 49% of the Nyanzaga JV. This will give ABG 100% of Nyanzaga project which covers 350 square kilometres of the Lake Victoria Goldfields some 35 kilometres northeast of the Bulyanhulu mine. The key asset in the JV is the 102 million tonne low grade Tusker deposit, averaging 1.3 g/t gold. Tusker has resources of 4.2 million ounces and could be used to augment feed from the underground Bulyanhulu mine.

In terms of valuation ABG is not an expensive gold play. The company's current market capitalisation is around US\$3.70 billion. The market is valuing the company at US\$143 per resource ounce. This is only a modest premium to the benchmark of US\$103 per gold equivalent ounce for over 60 companies with resources of over 750 million ounces, which is sufficiently large for a meaningful comparison.

The exploration potential in Tanzania deserves a premium rating.

Turning to the consensus forecasts for African Barrick Gold, the price earnings ratios (PERs) are 14X for 2010 and 15X for 2012. The average PER for the mid gold cap sector is 27X in 2011 and 20X in 2017. Compared with its peer group the company is attractively priced, and is much cheaper than Randgold Resources that is also reviewed in this FAT-EUR-174. At this level of valuation, we feel the premium is justified because of the quality of Randgold's assets.

We like the quality of African Barrick Gold's mines and we see good growth potential through successful exploration in one of the world's finest gold provinces. The stock is not expensive and we believe the company has the wherewithall to double gold production in the long term and add considerable value to shareholders in the process.

Accordingly, African Barrick Gold is recommended as a BUY for all Members.

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Snapshot ABG

African Barrick Gold plc

Acacia Mining is the new name for African Barrick Gold. Acacia is a multi billion dollar gold company listed on the London Stock Exchange. Investor demand for gold exposure in Tanzania is very strong. Barrick Gold Company took advantage of the situation to capture additional value by putting its Tanzanian assets into a new vehicle, African Barrick Gold (ABG). African Barrick is now moving to establish its own identity. The newly named company has three operating mines, North Mara, Bulyanhulu and Buzwagi. At the end of 2013 ACA had proven and probable gold reserves of 12.7 million ounces. Tanzania is one of the most exciting gold provinces in the world with potential to deliver many more large gold discoveries.

Market Capitalisation: GBP2.54bn

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