

Gold Chiefs Are Melting Away

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LIAM DENNING, August 2, 2012

The latest gold rush is for new chief executives.

Kinross Gold's KGC -5.79% ouster of Tye Burt late on Wednesday follows Aaron Regent leaving from Barrick GoldABX -1.05% in June. Like Mr. Regent, Mr. Burt appears to have paid the price for an ill-fated big acquisition. Since the August 2010 announcement of the \$7.1 billion purchase of Red Back Mining, Kinross's stock has dropped by almost half while the gold price has risen by more than half.

It is the latest sign of a sector facing fundamental challenges. Gold-mining stocks haven't kept pace with the metal. In part, that is because exchange-traded funds have leached away investment dollars, but it also reflects cost inflation eroding profit margins and project delays impeding growth. One factor hanging over Mr. Burt at Kinross was the Tasiast mine in Mauritania, which came with Red Back and had its value written down this year. Given his departure comes just a week ahead of second-quarter results, one concern is that there may be more bad news to come on this front.

Meanwhile, spending on new mines and acquisitions across the sector has outpaced cash flow, limiting dividends and leading to dilutive equity issuance.

In this environment and with gold stuck in a rut at about \$1,600 a troy ounce, the question is what miners can do to spark a sustainable rally. That makes Mr. Burt's successor an interesting choice. J. Paul Rollinson was Kinross's executive vice president of corporate development and an ex-investment banker. His appointment rather than, say, the chief operating officer opens the possibility that Kinross could be seeking a deal.

Potential buyers are few, says **Pawel Rajszel**. He says Barrick is the most suitable given its scale and need for new growth projects after 2015, which Kinross's assets could provide. That said, Newmont MiningNEM -1.76% also is large and could do a deal. Moreover, the flat gold price has eroded the attraction of Newmont's gold-price-linked dividend relative to its peers, so a strategic move might be tempting.

What isn't clear, however, is whether mergers would do much good. On the positive side, if Kinross were acquired in a stock-based deal, its shareholders might benefit from greater diversification of assets in a larger company.

Ultimately, though, the miners are stuck between rising costs and a flat gold price. It would be worse if gold fell from here: **Mr. Rajszel** estimates average free cash flow after capital expenditure peaked at about \$500 an ounce last year and may now be in a cyclical downswing. Low dividend yields—even Newmont offers just 3%—mean shareholders aren't being paid to take the risk either.

Gold mining CEOs, old and new, face an unenviable challenge in rekindling investor interest.

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