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Nordgold Planning Acquisitions

By The Moscow Times

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Nordgold, the gold-mining company spun off from Severstal this year, plans to double reserves in the next four years and is looking for emerging market acquisitions as it raises output worldwide.

The gold producer, listed in London, will invest $800 million through 2015 to increase reserves from 8.2 million ounces now and boost output by almost 60 percent to about 1.2 million ounces, chief executive Nikolai Zelensky said.

“We don’t have an immediate goal to become a top 10 company, but we don’t rule out any large merger in the future,” Zelensky, 38, said in an interview. While existing reserves are sufficient to ensure future output, organic growth is “only the base case,” he said.

Severstal, the steelmaker controlled by billionaire Alexei Mordashov, created Nordgold from scratch, buying gold assets in Russia, Kazakhstan and Africa. The gross deposit in Russia’s Sakha republic and Bissa in Burkina Faso in West Africa are set to start producing next year.

About $470 million of the investments are planned for this year, mostly on construction at new mines and geological studies. Output is forecast to climb 13 percent to 850,000 ounces this year from 754,000 ounces last year.

Nordgold will spend its own funds on capital expenditures during the next four years and doesn't plan to raise debt beyond the $400 million debt it owes Severstal, Zelensky said.

"We're in talks with Russian and international banks on refinancing this debt as soon as possible, and we think we will be able to get a lower rate than the 7 percent we are now paying to Severstal," Zelensky said.

Nordgold will consider acquisitions from "early greenfields" to producing assets, Zelensky said. "We are mostly interested in high-quality deposits in emerging markets such as Russia, Africa, Latin America and Southeast Asia," Zelensky said. It is hard to find good assets in the United States, Canada and South Africa at attractive prices, he said.

More than 63 percent of Nordgold's output may come from outside Russia in 2013, compared with about 57 percent last year, according to Nordgold estimates. "We are absolutely confident in all our overseas investments, and we have good working relations with all of the governments," Zelensky said.

In Guinea, where Nordgold has its largest mine, the government proposed a rule last year that would allow it to gain as much as 35 percent of any mining company. "The code hasn't come into effect, and we haven't held any discussions with the government recently on selling" a stake in Crew Gold, the unit that operates the LEFA mine, Zelensky said.

The miner is looking at ways to boost its number of shares trading and its share price, Zelensky said. The possibilities include swapping stock with minority shareholders in its Toronto-listed subsidiary High River Gold Mines; acquiring a London- or Toronto-listed "small player with interesting assets;" or a share sale, he said.

In April, Nordgold is having its reserves reassessed, which will be needed to value its shares if a swap is offered to High River shareholders, Zelensky said. A swap may boost Nordgold's free float to about 20 percent, he said. The company has a free float of about 10 percent, compared with a targeted 17 percent when Severstal announced the spin-off.

Nordgold trades at a discount of as much as 54 percent to peers in the former Soviet Union and Africa, even while generating "solid" output growth and one of the highest margins on EBITDA, said Dmitry Kolomytsyn, an analyst at Morgan Stanley in Moscow. The EBITDA margin was about 50 percent for 2011.

Nordgold may also consider redomiciling for a primary listing in London and inclusion in the FTSE-100

Index, Zelensky said, following last year's move by Polymetal International, a silver and gold miner, and Evraz, a steelmaker. The company has yet to study the tax or financial outcome of such a move, which "isn't a priority for 2012," he said.

The mining company's shares have fallen to $6.75, a decline of about 13 percent since Jan. 19, the first day of trading in London, cutting its market value to $2.4 billion. Competitor

Randgold Resources, which produced 696,023 ounces of gold in 2011, has a market value of £6.6 billion ($10 billion).

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