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Bells Gold Tracker

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ASX-listed gold review

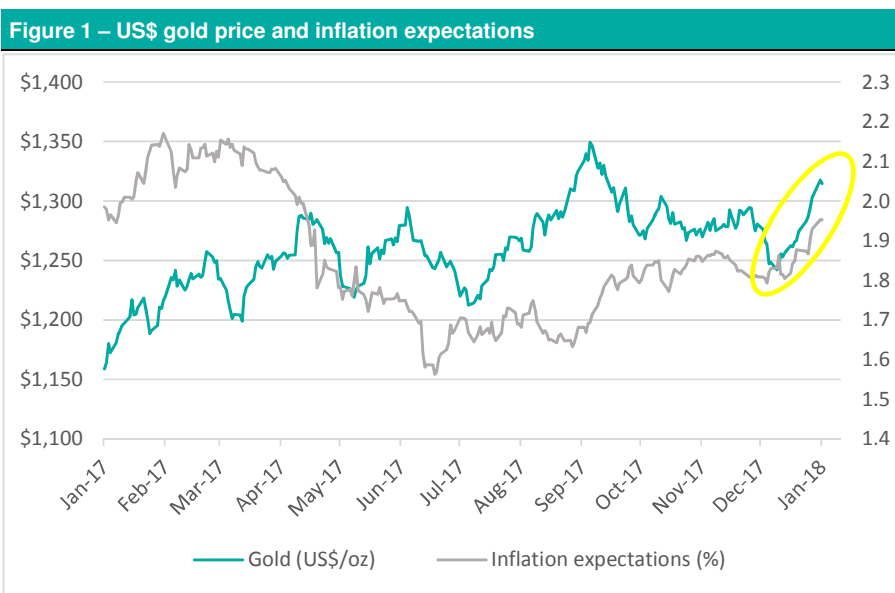
The Bells Gold Tracker is a periodic review of ASX-listed gold equities and the gold market. We run through a current market theme, our current coverage, key company releases (including Substantial Holding Notices), a gold-producers’ comparison table, a gold equities performance “heat-map” and some key price and relative value charts.

TALKING POINT

It is our sense that there has been a general lack of interest in the gold sector through the second half of 2017. Particularly through the last quarter, the US\$ gold price was looking for a theme and spent nearly all its time meandering in a US\$50/oz range from US\$1,250-US\$1,300/oz and ETF holdings barely moved. If anything, we felt the price held up very well in the prevailing environment of a Fed raising cycle combining with low inflation to drive rising real interest rates. There was support from a weakening US dollar but overall the market appeared to feel little reason to own gold at all.

Yet this is in contrast to the US\$ gold price appreciating 13% over CY17, its best performance since 2010 (up 29%) and the fact that in A\$ terms the gold price has been at very favourable levels for Australian producers. The A\$ gold price defied bearish market consensus and averaged A\$1,640/oz for the year, offering strong margins for quality local production assets with All-In-Sustaining-Costs (AISC) of ~A\$1,000/oz or less. As illustrated in our Heat Map on p6, key Australian producers returned very strong share price performances in CY17: SBM up 87%, NST up 69%, RRL up 45%, EVN up 25% and SAR up 71%. This shows that despite the lack of interest there were several reasons to be cheerful with gold exposure in 2017.

Gold returning as an inflation hedge: Throughout 2017 a weakening US dollar has been offset by rising real interest rates with neither really dominating the gold price. However a number of factors are now competing to influence the gold price and it is our view that what is panning out will be positive for both bullion and gold equities. With the theme of synchronised global growth gaining momentum, capital now seems to be chasing growth rather than yield. Commodity and energy prices have risen across the board in 2017 and PMI’s and GDP continue to read strongly. We think that in this environment rising bond yields are reflective not only of increased risk appetite but also of an emerging inflation theme. Inflation expectations (as measured by the spread between 5yr TIPS and 5yr US bonds) show a recent step up and a fresh positive correlation to the gold price – shown in the chart below. The gold market has been looking for a driver and whilst it is early days this may see gold returning to one of its traditional roles as an inflation hedge. **Should this emerge it is something we would see as positive for the gold price and favourable for the lower cost producers in particular.**



SOURCE: BLOOMBERG AND BELL POTTER SECURITIES ESTIMATES

BELL POTTER PRECIOUS METALS COVERAGE**Table 1 - Bell Potter precious metals coverage**

Prices at 10/01/2018	Market capitalisation	Price	Target price	Recommendation	Analyst
Regis Resources Ltd (RRL)	\$2,142m	\$4.25/sh	\$4.45/sh	Buy	DC
Saracen Minerals Ltd (SAR)	\$1,301m	\$1.60/sh	\$1.25/sh	Sell	DH
Resolute Mining Limited (RSG)	\$805m	\$1.09/sh	\$1.88/sh	Buy	DH
Gold Road Resources Ltd (GOR)	\$601m	\$0.69/sh	\$1.01/sh	Buy (Spec)	PA
Dacian Gold Ltd (DCN)	\$609m	\$2.96/sh	\$2.75/sh	Buy (Spec)	DC
Westgold Resources Ltd (WGX)	\$574m	\$1.70/sh	\$2.50/sh	Buy	PA
West African Resources Ltd (WAF)	\$263m	\$0.46/sh	\$0.62/sh	Buy (Spec)	DH
Pantoro Limited (PNR)	\$176m	\$0.23/sh	\$0.34/sh	Buy (Spec)	DC
Breaker Resources NL (BRB)	\$102m	\$0.70/sh	\$1.30/sh	Buy (Spec)	DC
Kingsrose Mining Ltd. (KRM)	\$66m	\$0.09/sh	-	Suspended	PA
S2 Resources Ltd (S2R)	\$52m	\$0.21/sh	\$0.55/sh	Buy (Spec)	PA
Silver Mines Ltd (SVL)	\$39m	\$0.09/sh	\$0.34/sh	Buy (Spec)	PA
Calidus Resources Ltd (CAI)	\$28m	\$0.04/sh	\$0.055/sh	Buy (Spec)	DH

SOURCE: BELL POTTER SECURITIES

RRL: RRL is one of our top picks among the ASX-listed gold producers due to its strong balance sheet, low costs, capital efficient growth and high shareholder returns.

SAR: We believe SAR is a good story with strong management and good near term cash generating potential. However, we feel the business is currently overvalued by the market.

RSG: We believe RSG is significantly undervalued by the market and offers peer beating growth, scale, balance sheet security and cash generation.

GOR: With forecast annual average gold production of at least 270koz at a low average AISC of A\$945/oz, Gruyere is a very attractive mining project targeting first production in 2020. Positive exploration results across GOR's large Yamarna tenement confirm it is highly prospective.

DCN: Its Mount Morgans Gold Project is fully funded to production and excellent development progress offers attractive upside as the project is de-risked.

WGX: Is ramping up its Central Murchison Gold Project, with a recently revised development plan targeting annual processing capacity of ~3Mtpa, average annual gold production of 250kozpa and average AISC of A\$1,260/oz.

WAF: We believe WAF is an excellent and undervalued exploration story. The recent delineation of a very high grade underground Resource of 575koz at 22g/t Au is a huge boost for the project's development.

PNR: Offers attractive value as production increases, costs fall, the balance sheet strengthens and exploration success adds to mine life at the Halls Creek Gold Project. In addition, successful ore sorting is offering capital efficient production growth.

BRB: The latest drilling results remain consistent with our investment thesis of Lake Roe potentially hosting a, multi-million ounce, greenfields gold discovery. With preliminary metallurgical test work it points to an attractive development proposition.

S2R: Discovery team that found the Nova-Bollinger nickel deposit is drilling out a shallow, high grade volcanogenic massive sulphide (VMS) style zinc-copper in Sweden and first pass exploration on gold prospects in Nevada.

SVL: SVL's Feasibility Study is continuing while the company is carrying out a program of definition and extensional drilling at its 100% owned Bowdens Silver Project in Central Western NSW. Latest drilling results confirm extensive zones of base metal mineralisation beneath the Bowdens Silver resource.

CAI: We see potential for a >1Moz project at Warrawoona supporting a standalone operation in a new gold belt in WA. Metallurgy looks simple as does mining and access. CAI has 275m performance rights on issue to the vendor Keras Resources (LSE:KRS) that may dilute the register to 1.5 billion shares on issue.

KEY COMPANY RELEASES

Key announcements from over the Christmas period include:

BRB: Announced a further round of Resource drilling results including numerous wide, high grade, open-pit intersections as well as good underground grade depth extensions. In our view the results continue to point to the successful drill-out of a major new greenfields gold discovery. Highlight intersections include:

- 9m @ 35.88g/t Au from 131m (BBRD0675)
- 20m @ 3.53g/t Au from 187m (BBRC0708)
- 24m @ 3.12g/t Au from 36m (BBRC0689)
- 36m @ 2.78g/t Au from 8m (BBRC0694)
- 32m @ 2.57g/t Au from 20m (BBRC0577)

BRB remains on track to release a maiden Resource before the end of the March quarter.

DCN: Provided a further positive update on the progress of development at its Mount Morgans Gold Project in WA. Underground development is continuing ahead of schedule (873m ahead of plan, ore accessed on 5 levels), the 2.5Mtpa process plant is 90% complete, the gas pipeline has been installed, grade control drilling is well underway at both the Jupiter open-pit and the Beresford underground and open-pit mining has commenced at Jupiter. The project remains on budget and on schedule for first production in March 2018. Furthermore, Resource drilling at the Cameron Well satellite project is also nearing completion, with results to be released in coming weeks.

SBM: Has announced December 2017 quarterly gold production of 99.5koz, including 62.8koz from the Gwalia underground and 36.7koz from the Simberi mine. Cash at bank was A\$216m at end 2017 (from A\$199 million at end September). Production guidance has been increased to 365-385koz for FY18 (from 350-375koz).

RMS: Has announced record gold production for the December quarter 2017 of 58,012oz. Costs not yet available but expected to be below guidance of A\$1,250/oz. The production increase follows the completion of the acquisition of the Edna May gold mine from Evolution Mining (EVN) on 3 October 2017 and which contributed 21.4koz to quarterly production. Consideration for the acquisition was \$A40m cash plus contingent payments of A\$20M in cash or shares upon decision-to-mine the Edna May Stage 3 open pit and Royalty payments of up to A\$30M payable at A\$60/oz from gold production over 200koz for a maximum possible consideration of A\$90m.

GCY: Has provided a construction update for its 100% owned Dalgara Gold Project, which remains within budget and on time with first gold production is scheduled for Q2 2018 (within 5 months). Construction of the 2.5Mtpa Processing Plant is well advanced and wet commissioning is expected in May. Foundations for the power station, along with the fuel storage facility have been completed, the tailings storage facility (TSF) and evaporation pond construction is complete and the tailings pipeline is currently being installed. Mining contractor mobilisation is to commence during January for a March start to mining.

ARV: Will seek a dual listing in Canada: *"We consider it important and necessary to expand our investor base further in to the North American market."* This follows an update by Canadian-listed peer, Novo Resources (NVO:CN) which concluded that *"Current indications are that samples weighing 250-400 kg may be of insufficient size to accurately reflect grade. Samples weighing several tonnes may be required."*

BLK: Following the pre-Christmas withdrawal of a A\$60m funding package with Pacific Road Capital (which was to include \$50m loan facility, A\$7.35m private placement and \$2.65m underwriting of an Entitlement Offer), BLK has embarked on a new path to refinancing. First step is the restructuring of the existing \$37m secured loan with Orion Mine Finance (first repayment of \$14.8m was due in December 2017). The restructuring is expected to be finalised in mid-January at which point a A\$36m Entitlements Issue will be attempted.

KIN: Has entered into a US\$27M (A\$35M) senior secured credit facility with Sprott Private Resource Lending. An initial A\$6.5M has been advanced under the agreement which will be used to fund the construction of the 100% owned Leonora Gold Project (LGP) in Western Australia. The LGP is forecast to be in production in the second half 2018.

BDR: Lowered its gold production guidance from the Tucano Mine in Brazil for the December quarter to approximately 50koz (from 60koz) and announced that production for CY17 will be below guidance of 140-150koz. Cost guidance for CY17 was left unchanged with All-In-Sustaining-Costs (AISC) per ounce last expected to be in the US\$1,000 to US\$1,100 per ounce range.

SLR: Has appointed Len Eldridge to the role of Corporate Development Officer, with effect from January 2018. SLR Managing Director Luke Tonkin said the appointment “comes at an exciting time for Silver Lake and signals the financial turnaround of the Company, driven by strong cashflow generation and resultant balance sheet strength.” He said Mount Monger was “a strong core asset with demonstrable exploration potential. Silver Lake’s capital allocation strategy is driven by focussing on maximising shareholder returns and ensuring our investment in organic growth is benchmarked against external opportunities.”

CHANGES IN SUBSTANTIAL HOLDINGS

(from December 2017 to present)

Increases:

KCN: Metal Tiger PLC increases from 6.65% to 8.13%;

SBM: Van Eck increases from 9.65% to 11.21%;

CAI: Keras Resources increases from 30.25% to 35.76%;

EAR: 1832 Asset Management (Dynamic Funds) becomes substantial at 5.12%;

RMS: Ruffer increases from 7.23% to 8.24%;

BDR: Colonial increases from 5.10% to 6.92%;

EAR: Northern Star (NST) becomes substantial at 16.37%;

CYL: St Barbara (SBM) increases from 7.2% to 16.0%;

WGX: Golden Energy And Resources (GEAR) becomes substantial at 5.0%;

PRU: Australian Super becomes substantial at 5.1%;

PEX: St Barbara (SBM) increases from 10.8% to 16.3%;

Decreases:

HIG: Trafigura decreases from 15.8% to 14.8%

WGX: BlackRock decreases from 11.75% to 10.43%;

NCM: First Eagle decreases from 7.24% to 6.14%;

BDR: Paradice decreases from 7.74% to 6.54%;

BDR: Van Eck ceases to be substantial;

CDV: 1832 Asset Management (Dynamic Funds) decreases from 10.85% to 9.77%;

GOLD EQUITIES – COMPS TABLE

Company	ASX Code	Price (\$/sh)	Market Cap (\$m)	Net Cash/(Debt) (\$m)	EV (\$m)	Current production rate (kozpa)	Latest AISC (\$/oz)	AISC margin (\$/oz)	Implied free cash flow (\$m pa)	EV/FCF x	Total hedged (koz)	Avg hedged price (\$/oz)	Mark-to-market (\$m)	Net cash (debt) / Mkt Cap
Newcrest Mining Limited	NCM	\$22.88	\$17,559.2	-\$1,914.9	\$19,474.1	2,092	\$1,140	\$534	\$1,116.7	17.4 x	6130	\$1,751	-\$47.1	-10.9%
Evolution Mining Limited	EVN	\$2.56	\$4,333.1	-\$345.0	\$4,678.1	884	\$786	\$888	\$785.0	6 x	4105	\$1,656	-\$7.5	-8.0%
Northern Star Resources Ltd	NST	\$5.93	\$3,576.8	\$443.0	\$3,133.8	554	\$1,021	\$653	\$361.7	8.7 x	3165	\$1,750	\$24.0	12.4%
Regis Resources Limited	RRL	\$4.31	\$2,172.3	\$131.3	\$2,041.0	368	\$861	\$813	\$299.0	6.8 x	4031	\$1,555	-\$48.0	6.0%
OceanaGold Corporation	OGC	\$3.20	\$1,971.0	-\$268.7	\$2,239.7	544	\$950	\$724	\$304.2	5.7 x	1829	\$1,664	-\$1.9	-13.6%
St Barbara Limited	SBM	\$3.65	\$1,881.3	\$199.0	\$1,682.3	393	\$889	\$785	\$308.6	5.5 x	76.0	\$1,728	\$4.1	10.6%
Saracen Mineral Holdings Limited	SAR	\$1.60	\$1,298.5	\$60.5	\$1,238.0	321	\$1,008	\$666	\$213.9	5.8 x	240.1	\$1,603	-\$17.1	4.7%
Resolute Mining Limited	RSG	\$1.10	\$815.6	\$201.6	\$614.0	305	\$1,397	\$277	\$84.4	7.3 x	93.0	\$1,692	\$1.7	24.7%
Westgold Resources Limited	WXG	\$1.70	\$574.1	\$0.8	\$573.3	265	\$1,229	\$445	\$118.0	4.9 x	141.3	\$1,640	-\$4.9	0.1%
Perseus Mining Limited	PRU	\$0.43	\$410.7	\$22.7	\$388.0	205	\$1,417	\$257	\$52.8	7.4 x	165.0	\$1,618	-\$9.3	5.5%
Ramelius Resources Limited	RMS	\$0.43	\$224.0	\$96.1	\$127.9	133	\$1,209	\$465	\$61.7	2.1 x	102.0	\$1,721	\$4.8	42.9%
Beadell Resources Limited	BDR	\$0.18	\$218.9	-\$36.7	\$255.6	115	\$1,264	\$410	\$47.2	5.4 x	-	na	na	-16.7%
Silver Lake Resources Limited	SLR	\$0.39	\$195.3	\$65.6	\$129.7	139	\$1,019	\$655	\$34.8	4.8 x	6.9	\$1,775	\$0.7	5.0%
Pantoro Limited	PNR	\$0.23	\$176.4	\$8.7	\$167.7	53	\$1,019	\$655	\$13.1	9.3 x	27.0	\$1,651	-\$0.6	14.2%
Millennium Minerals Limited	MOY	\$0.18	\$141.8	\$20.1	\$121.7	64	\$1,470	\$204	\$43.7	2.2 x	-	na	na	0.0%
Medusa Mining Limited	MML	\$0.46	\$95.6	\$0.0	\$95.6	100	\$1,236	\$439	\$25.9	4.7 x	63.6	\$1,590	-\$5.4	-33.4%
Doray Minerals Limited	DRM	\$0.25	\$90.2	-\$30.1	\$120.3	85	\$1,371	\$303	\$26.9	2.2 x	-	na	na	17.4%
Kingsrose Mining Limited	KRM	\$0.10	\$70.8	\$12.3	\$58.5	35	\$910	\$764	\$5.1	13.3 x	40.0	\$1,502	-\$6.9	-51.2%
Troy Resources Limited	TRY	\$0.10	\$45.0	-\$23.0	\$68.1	52	\$1,575	\$100	-\$34.1	-1.9 x	28.6	\$1,651	-\$0.7	-72.4%
Blackham Resources Limited	BLK	\$0.11	\$37.7	-\$27.3	\$65.0	62	\$2,219	-\$545						
Average							\$1,216	\$458		6.4 x				

CHANGE IN NET CASH (DEBT) QoQ to Sep-17

Company	ASX Code	Net Cash/(Debt) (\$m)	Change qoq (\$m)	Change A\$/oz
St Barbara Limited	SBM	\$199.0	\$63.0	\$641
Evolution Mining	EVN	-\$345.0	\$103.3	\$467
Pantoro Limited	PNR	\$8.7	\$5.2	\$393
Northern Star	NST	\$443.0	\$32.0	\$231
Regis Resources	RRL	\$131.3	\$19.9	\$216
Saracen	SAR	\$60.5	\$15.3	\$191
Ramelius	RMS	\$96.1	\$6.2	\$187
OceanaGold	OGC	-\$268.7	\$13.3	\$98
Troy Resources	TRY	-\$23.0	\$0.5	\$39
Newcrest Mining	NCM	-\$1,914.9	n/r	
Perseus Mining	PRU	\$22.7	-\$1.1	-\$22
Medusa Mining	MML	\$0.0	-\$1.1	-\$43
Silver Lake	SLR	\$65.6	-\$3.5	-\$101
Doray Minerals	DRM	-\$30.1	-\$4.5	-\$211
Millennium Minerals	MOY	\$20.1	-\$7.6	-\$475
Blackham	BLK	-\$27.3	-\$7.9	-\$506
Resolute Mining	RSG	\$201.6	-\$45.9	-\$603
Westgold	WXG	\$0.8	-\$40.3	-\$609
Beadell	BDR	-\$36.7	-\$21.1	-\$734
Kingsrose	KRM	\$12.3	-\$7.6	-\$865

NOTE: This purely measures changes in net cash (debt) qoq net of equity raising inflows and dividend payment outflows. Therefore, over and above cash outflows measured by the AISC, it will also capture capital investments in new projects, debt repayments/drawdowns, asset acquisitions and divestments, gold forward sales, timing of sales and one-off items impacting quarterly cash movements over and above the ongoing operations.

RESOURCE AND RESERVE OUNCE VALUATIONS

Company	ASX Code	Resources (Mozs)	Grade (g/t Au)	EV/Res oz (\$/oz)	Reserves (Mozs)	Grade (g/t Au)	EV/Rsv oz (\$/oz)
Newcrest Mining Limited	NCM	127.8	1.38	\$152	64.8	1.33	\$301
Evolution Mining Limited	EVN	13.3	0.73	\$351	6.6	0.92	\$713
Northern Star Resources Ltd	NST	9.3	3.50	\$339	2.0	4.70	\$1,567
Regis Resources Limited	RRL	8.2	0.96	\$250	4.2	1.10	\$484
OceanaGold Corporation	OGC	13.0	1.33	\$172	5.0	1.41	\$444
St Barbara Limited	SBM	9.6	2.90	\$175	4.3	3.90	\$390
Saracen Mineral Holdings Limited	SAR	8.0	1.64	\$156	2.0	1.98	\$612
Resolute Mining Limited	RSG	12.6	1.70	\$49	4.7	1.50	\$131
Westgold Resources Limited	WXG	16.0	2.09	\$36	3.5	2.31	\$162
Perseus Mining Limited	PRU	10.8	1.17	\$36	3.9	1.49	\$100
Ramelius Resources Limited	RMS	3.4	1.99	\$38	0.9	1.86	\$146
Beadell Resources Limited	BDR	3.7	1.82	\$69	1.5	1.83	\$174
Silver Lake Resources Limited	SLR	3.3	3.60	\$39	0.5	3.50	\$276
Pantoro Limited	PNR	0.4	7.43	\$445	0.2	7.35	\$917
Millennium Minerals Limited	MOY	1.4	1.54	\$89	0.2	1.40	\$654
Medusa Mining Limited	MML	1.3	3.94	\$71	0.3	6.54	\$277
Doray Minerals Limited	DRM	1.4	4.30	\$85	0.3	4.80	\$463
Kingsrose Mining Limited	KRM	0.5	8.90	\$107	-	-	na
Troy Resources Limited	TRY	1.0	2.28	\$69	0.2	2.22	\$324
Blackham Resources Limited	BLK	6.5	3.10	\$10	1.2	2.50	\$54
Average				\$137			\$431

SOURCE: IRESS, COMPANY REPORTS, BELL POTTER ESTIMATES

AISC margin: margin between AISC and AS spot gold price

Production: is gold ounces only, by-product credits are accounted for in AISC

Implied free cash flow = AISC margin x annualised production. Is an estimate only

GOLD EQUITIES – PERFORMANCE HEAT MAP

We have run this edition of the heat map over the 12 months to the end of 2017. As discussed on the front page the quality Australian producers delivered some great share price performances over the year. In the mid-cap names some company specific catalysts also offered attractive results. These include **Dacian Gold** (DCN, Speculative Buy, Valuation \$2.75) as it progressed towards production and **West African** (WAF, Speculative Buy, Valuation \$0.62) following the definition of a high grade underground Resource of 575koz @ 22g/t. Other names such as **Breaker** (BRB, Speculative Buy, Valuation \$1.30) and **Pantoro** (PNR, Speculative Buy, Valuation \$0.34) continue to consolidate on a breakthrough year in 2016.

Figure 2 – ASX gold equities heat map of rolling share price performance

Stock	3 months to Dec-2016	3 months to Mar-2017	3 months to Jun-2017	3 months to Sep-2017	3 months to Dec-2017	12 months to Dec-2017
US\$ gold	-12%	8%	-1%	3%	2%	13%
A\$ gold	-7%	2%	-1%	1%	2%	4%
XGD	-16%	8%	-1%	0%	13%	21%
NCM	-9%	10%	-9%	4%	9%	13%
EVN	-16%	-1%	15%	-8%	20%	25%
OGC	2%	-8%	6%	-6%	-10%	-18%
NST	-22%	12%	17%	4%	23%	69%
RRL	-23%	11%	15%	-5%	19%	45%
SBM	-36%	17%	22%	-10%	45%	87%
RSG	-34%	0%	-8%	-13%	11%	-12%
SAR	-31%	-1%	19%	12%	29%	71%
WGX	na	43%	-22%	7%	-10%	7%
GOR	-8%	-4%	22%	6%	-1%	22%
PRU	-39%	-7%	-6%	16%	12%	12%
SLR	20%	-9%	-19%	-14%	-6%	-41%
DCN	-42%	-1%	0%	1%	40%	40%
BDR	-36%	7%	-26%	-12%	-5%	-33%
RMS	5%	2%	-12%	-16%	1%	-23%
MOY	-33%	13%	-27%	-24%	21%	-24%
BLK	-49%	20%	-48%	-29%	-48%	-77%
DRM	-31%	-22%	-9%	-36%	8%	-51%
PNR	9%	0%	39%	-16%	2%	19%
GCY	-23%	-1%	-9%	13%	-13%	-12%
WAF	-37%	20%	34%	-10%	28%	86%
MML	-32%	-28%	-22%	4%	50%	-13%
GRY	-32%	46%	0%	71%	-37%	57%
CDV	-65%	123%	-1%	34%	-26%	119%
TRY	-64%	7%	-50%	35%	-7%	-32%
RED	-28%	-34%	-42%	33%	32%	-33%
BRB	-36%	31%	24%	-7%	-8%	40%
BSR	70%	-35%	-18%	-22%	7%	-56%
ABU	50%	0%	-10%	26%	-23%	-12%
AWV	-36%	-9%	-24%	20%	-20%	-33%
KRM	-38%	0%	0%	0%	-23%	-23%
RTG	-54%	-23%	-15%	0%	72%	14%
Average	-22%	6%	-5%	2%	6%	7%

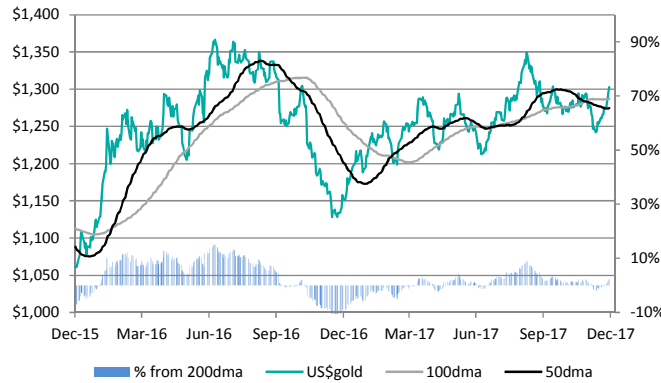
SOURCE: IRESS, BELL POTTER SECURITIES ESTIMATES

This list was sorted by market capitalisation as at February 2017.

GOLD IN CHARTS - PRICES

From a technical point of view the gold price is looking very constructive. In both US\$ and A\$ terms it has popped up above all key moving averages in the last two weeks and in US\$ terms closed above US\$1,300/oz for the first time since September. The catalyst once again has been a rate rise by the US Federal Reserve (December 12th, 2017), with gold not having been below US\$1,250/oz since. What we find more encouraging though, has been gold's relative strength in an environment of rising interest rates and low inflation – a combination that points to rising real interest rates and is typically negative for gold.

Figure 3 – Rolling 2yr US\$ gold price and 200dma divergence



SOURCE: IRESS, BELL POTTER ESTIMATES

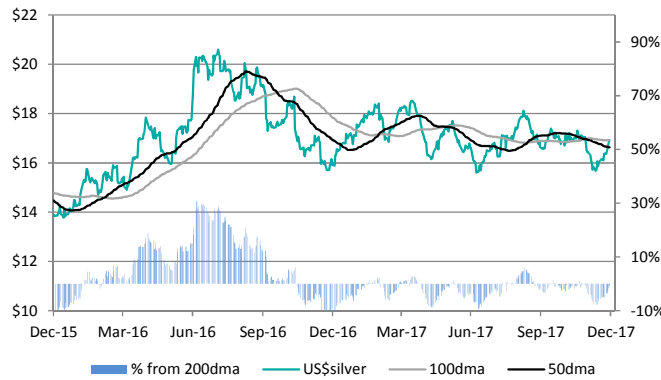
Figure 4 – Rolling 2yr A\$ gold price and 200dma divergence



SOURCE: IRESS, BELL POTTER ESTIMATES

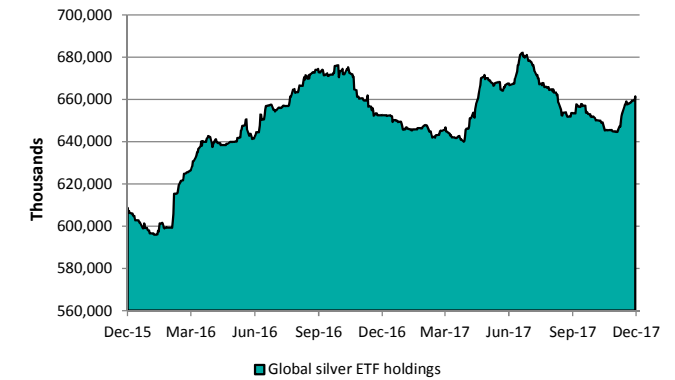
Silver also came off mid-December lows to gain 8% in the last couple of weeks of 2017 (vs ~5% for gold over the same period). This has been matched by a notable bounce in silver ETF holdings, up 2.6% since bottoming at the start of December. In our view, silver investment and silver outperformance is a strong indicator of positive sentiment for the precious metals.

Figure 5 – Rolling 2yr US\$ silver price and 200dma divergence



SOURCE: IRESS, BELL POTTER ESTIMATES

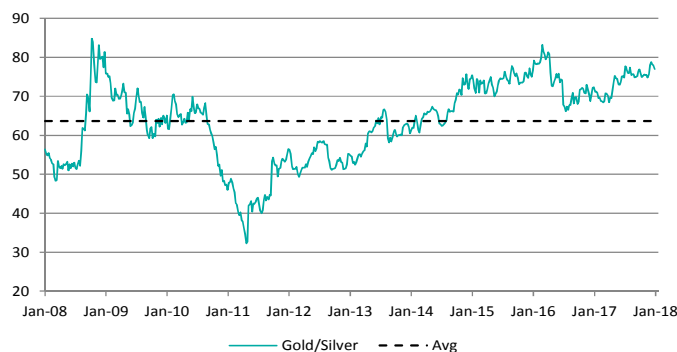
Figure 6 – Silver ETF holdings



SOURCE: IRESS, BELL POTTER ESTIMATES

The gold:silver ratio remains elevated and we'd like to see silver outperformance strengthen. Gold relative to the Dow has made a fresh 10-year low, pointing to extreme relative value vs stocks not seen since mid-2007 when gold was <US\$700/oz.

Figure 7 – Gold:Silver ratio (10 years)



SOURCE: IRESS, BELL POTTER ESTIMATES

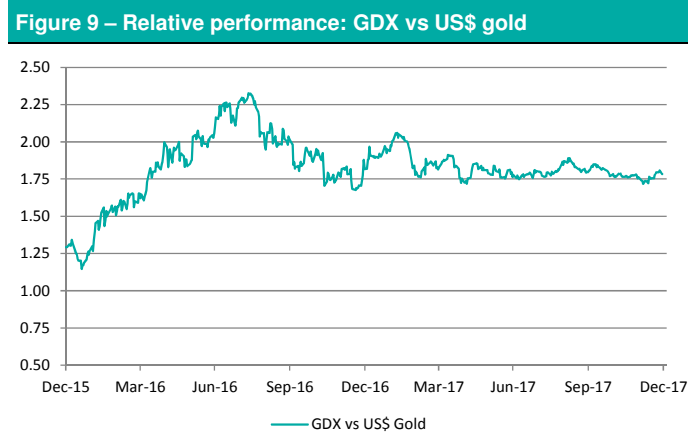
Figure 8 – Gold vs DJIA (10 years)



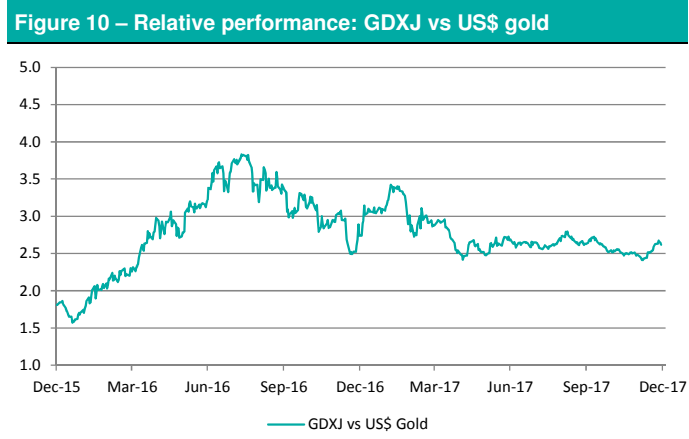
SOURCE: IRESS, BELL POTTER ESTIMATES

GOLD IN CHARTS – PERFORMANCE AND INDICATORS

The charts below monitor the performance of gold equities vs gold bullion. Relative outperformance of the equities is, in our view, a good indicator of positive sentiment. Two points here: 1) The rangebound trading illustrated in 2HCY17 reflects the lack of a strong thematic in the gold market through this period; 2) The strong relative outperformance of the ASX gold index. As previously highlighted, key producers have delivered strong share price performance over CY17, in our view demonstrating both operating and capital cost discipline. We think it also reflects on an attractive jurisdiction in Australia, the exit of bloated major producers and (ironically) the potential for them to be lured back via M&A in coming years.

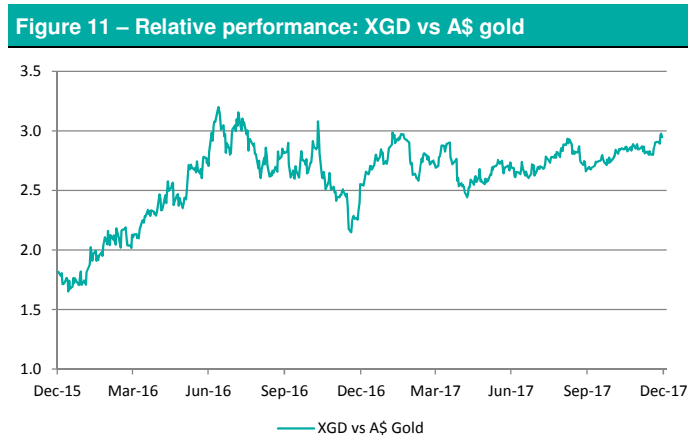


SOURCE: IRESS, BELL POTTER ESTIMATES

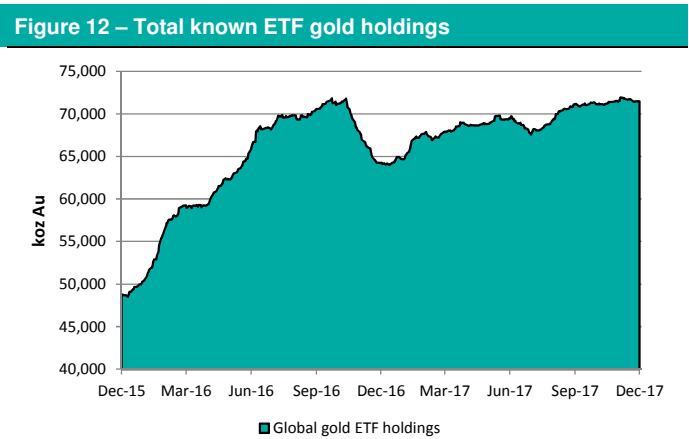


SOURCE: IRESS, BELL POTTER ESTIMATES

Stable gold ETF holdings in 2HCY17 further reflect the lack of a theme in the gold market over that period.

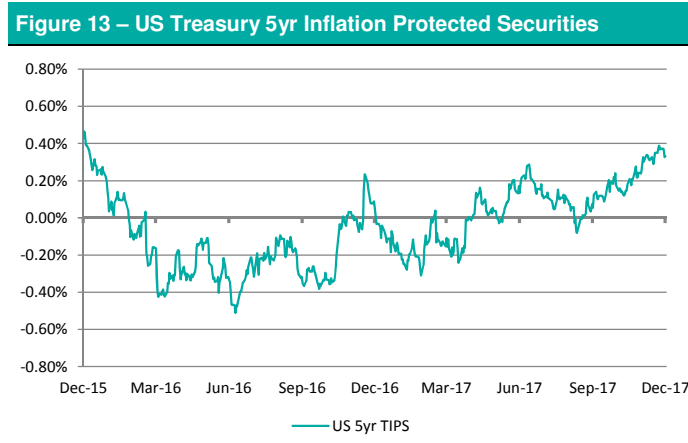


SOURCE: IRESS, BELL POTTER ESTIMATES

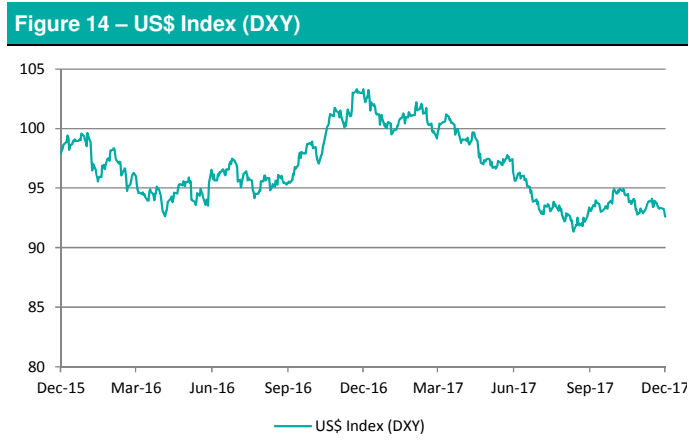


SOURCE: BLOOMBERG

The charts below illustrate some of the opposing forces on the US\$ gold price. However, as discussed on the front page, the gold price breaking out against the highest real interest rates seen since 2015 is perhaps reflecting a new theme emerging.



SOURCE: BLOOMBERG



SOURCE: BLOOMBERG

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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