

Client: Avocet Mining Buchanan
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Buchanan



Avocet Mining

226p

+14 1/4

Questor says

BUY

WHEN it comes to production guidance, the best thing mining companies can do is under-promise and over-deliver. This is what Avocet Mining has done.

The gold mining company, which owns 90pc of the Inata gold mine in Burkina Faso, issued a production update on the final quarter of last year that smashed expectations. Avocet produced 46,102 ounces of gold in the three months ending December – 39pc more than the previous quarter. Guidance was for 40,000 ounces.

This brought total production for the year to 166,744 ounces, compared with guidance of 160,000 to 165,000 ounces. For 2012, the guidance is a conservative 160,000 ounces.

The company has had a busy couple of years – selling off its South East Asian gold mines for £200m to focus on West Africa. As well as Inata, the group has a pipeline of exploration projects in Burkina Faso, Guinea and Mali.

Avocet is ramping up Inata production and this is going to consume most of the cash that it throws off over the next couple of

years. However, gold prices are likely to stay at elevated levels for some time.

Indeed, the prospect of more quantitative easing in the US, as hinted at by Ben Bernanke, Federal Reserve chairman, on Wednesday, sent the gold price once again above \$1,700 an ounce. Guidance for the cash cost of producing each ounce at Inata is \$800 to \$850 an ounce this year.

Most gold miners have underperformed over the past year or so but the view is building that they could have a better 2012. This includes Avocet. Indeed, last week Nomura named Avocet as one of its top three picks in the sector.

The group should continue to throw off cash and, although one should never buy a share on bid hopes alone, some analysts regard it as a prime acquisition target.

Avocet does not currently pay a dividend and it is likely to use its cash flow to invest in new projects, so Questor does not expect any payments soon.

The shares are trading on a December 2012 multiple of 14.1, falling to 8.1 in 2013.

Last tipped at 190p on June 28 last year the shares are up 19pc compared with a FTSE 100 up less than 1pc since that date.

The shares are a buy.