# Australia Goes for the Gold AROUND THE MARKETS BUSINESS ASIA By Bloomberg

By Madelene Pearson and Tan Hwee Ann

Surging gold prices this year have put bullion miners among the best-performing Australian stocks. The smallest producers among them, including Bendigo Mining and Agincourt Resources, now are set to outperform such giants as Newcrest Mining, says investor Michael McCormick.

Bendigo and Agincourt, along with Pan Australian Resources, Sino Gold and Dominion Mining, are exploring for bullion or starting production. Their stock prices should take off as output begins and the price of the precious metal stays high, said McCormick, a fund manager at Leyland Private Asset Management.

Jim Rogers, an investor who foresaw the start of a commodity rally in 1999, predicted in April that gold would soar to $1,000 an ounce, from $628 now. McCormick says gold will test the $873 record reached in 1980, possibly this year.

"There's still a huge amount of value in the Australian gold sector," the Sydney-based money manager said. "In any gold market it moves from the top down to mediums, down to the last leg will be the smaller ones. Then you know you are in a bull market when the smaller ones are starting to run."

Producers of raw materials like gold have risen 9 percent this year, based on their industry group within the S&P/ASX 300 Index. The benchmark has gained 4.8 percent. Bendigo, of Melbourne, has fallen 11 percent and Agincourt, based in Perth, is 20 percent lower.

Other nascent producers McCormick holds include Leviathan Resources, which is down 36 percent. Ballarat Goldfields is on his "watch list," McCormick said. It's down 32 percent. Prices for startup producers have fallen as other gold stocks pared their gains this year because the startups are thinly traded. That exacerbates market swings, he said.

Gold stocks also are among the best performers this year in South Africa and Canada. Gold Fields, based in Johannesburg, has risen 29 percent, and Bema Gold of Canada is up 88 percent. In the United States, 15 of 20 gold-mining companies with market values greater than $50 million are outperforming the Standard & Poor's 500 Index.

Bullion futures are up 23 percent this year and reached a 26- year high of $732.00 an ounce in May. Oxiana, Australia's second- biggest gold miner by market value, has jumped 80 percent this year, the sixth-best gain in the S&P/ASX 300. Resolute Mining has advanced 52 percent.

Companies that haven't hedged, or locked in the price of the gold they expect to produce, and have output of 100,000 ounces or more per year will be among the best performers, said McCormick.

Newcrest, Australia's biggest gold miner by market value, produced 1.53 million ounces in fiscal 2006. The company has forward- sold about 88 percent of its forecast 2007 gold output, Merrill Lynch said in a July 24 report.

Bendigo Mining, which produced its first gold this month, is forecasting output of 200,000 ounces a year over three years, reaching 600,000 ounces a year at full production. It hasn't locked in future prices.

Shares of smaller gold companies like Leviathan and Bendigo are trading at as little as half their net present value, giving them more potential for higher returns, said Pieter Bruinstroop, a commodities analyst at Ord Minnett in Melbourne. Net present value is a calculation of the current value of expected cash flows.

Bigger miners like Newcrest and Lihir Gold are trading at between 1.8 times to 2.5 times net present value, Bruinstroop said.

Some investors buy gold to hedge against inflation, which erodes the value of fixed-income assets like bonds. They also buy bullion as a haven against instability in financial markets caused by geopolitical tension.



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