

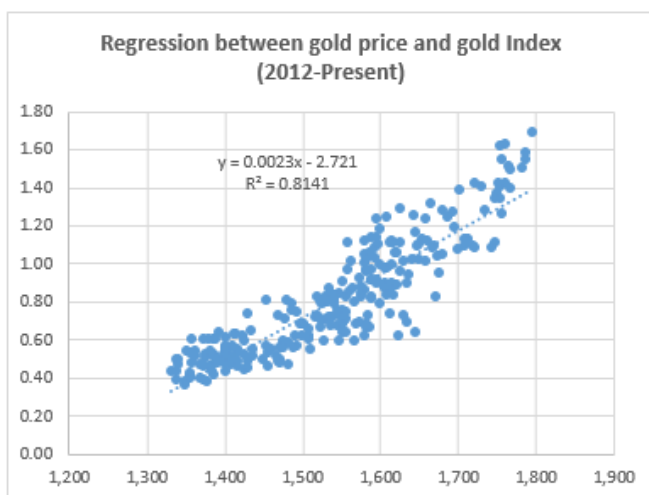
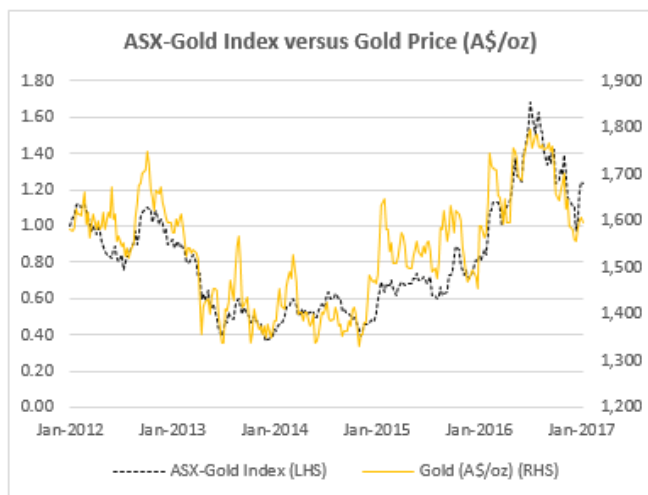
Investment Ideas

19 January 2017

Gold Sector: large cap names fully priced

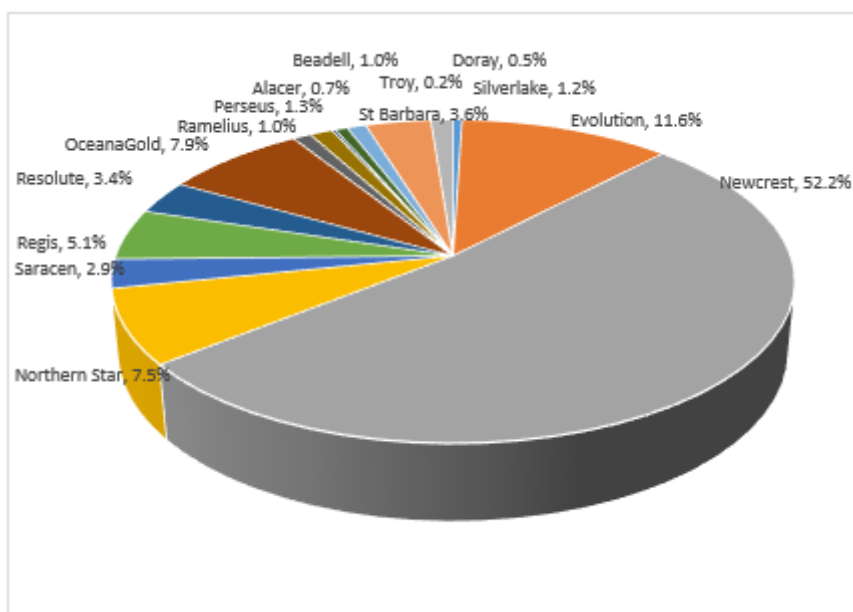
Largely on the back of a recovery in the share prices of heavyweights Newcrest, Evolution, and Northern Star, State One's ASX-Gold Index has appreciated strongly (+27%) over the past four weeks from its mid-December 2016 low. Note: over the same period, we calculate that the Australian dollar gold price has gained only A\$55/oz or 3.5% (from ~A\$1,550/oz to A\$1,605/oz).

Gold Index versus gold price (A\$/oz)



Source: IRESS, compiled by State One Stockbroking

State One Stockbroking's ASX-Gold Index composition



Source: IRESS, compiled by State One Stockbroking

Note: M'Cap's as at 19 Jan 2017

State One's ASX-Gold Index is composed of 15 market capitalisation-weighted ASX-listed gold companies.

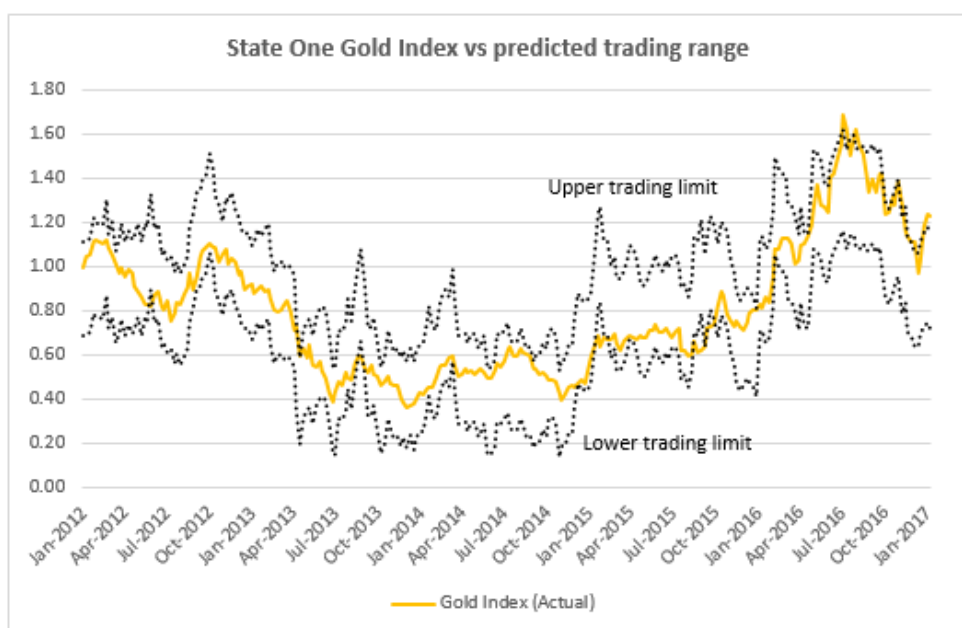
The "Big 5" - Newcrest (52.2%), Evolution (11.6%), OceanaGold (7.9%), Northern Star (7.5%), and Regis (5.1%) - collectively account for 84% of the Index.

Regression analysis (2012-Present) indicates gold sector is fully-valued

Our regression analysis indicates that a significant ($R^2 = 81\%$) of the Index performance is determined by movements in the A\$ gold price. At the current COMEX gold price of A\$1,605/oz (US\$1,204/oz and US\$0.75) we calculate that the Index is trading at (indeed slightly above) the upper limit of its predicted trading range. Thus, without additional gold price gains, we suggest that the Index is fully-valued.

A bottom-up analysis of IRESS consensus target prices confirms that the market sees more value in the smaller cap space; we recommend Blackham Resources (+36% upside), Beadell (+44%), and Alacer (+58%).

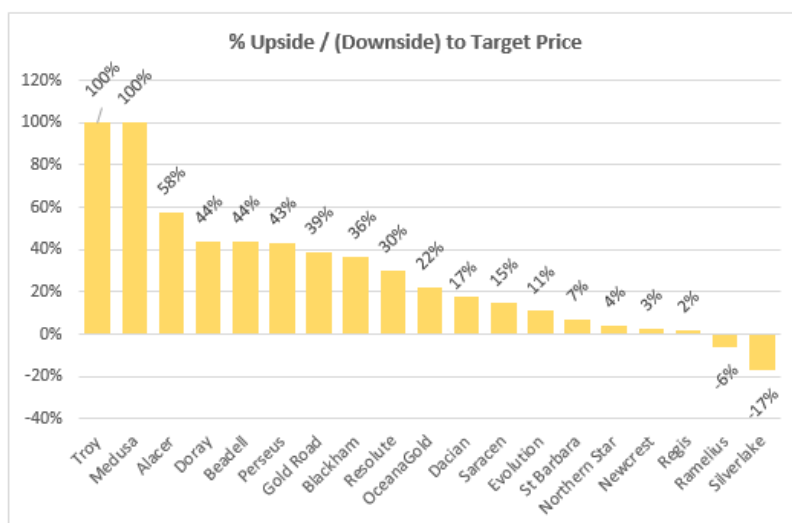
State One Gold Index versus predicted trading range (predicted level +/- 2SD)



Source: State One Stockbroking

Selected ASX-gold stocks: % upside/downside to IRESS consensus target prices

	Share Price (A\$)	Target Price (A\$)	% upside / (downside)
Troy	0.14	0.28	100%
Medusa	0.43	0.85	100%
Alacer	2.50	3.94	58%
Doray	0.44	0.63	44%
Beadell	0.31	0.45	44%
Perseus	0.41	0.58	43%
Gold Road	0.60	0.83	39%
Blackham	0.66	0.90	36%
Resolute	1.45	1.89	30%
OceanaGold	4.16	5.09	22%
Dacian	2.59	3.04	17%
Saracen	1.14	1.30	15%
Evolution	2.21	2.45	11%
St Barbara	2.38	2.54	7%
Northern Star	3.95	4.10	4%
Newcrest	21.58	22.19	3%
Regis	3.24	3.29	2%
Ramelius	0.62	0.58	-6%
Silverlake	0.77	0.64	-17%



Source: IRESS (share prices and consensus target prices as at 19 Jan 2017), compiled by State One Stockbroking

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