Growth Stocks Weekly

Publisher: Agilis Capital Corporation ~ **Since:** May, 1995 ~ **Editor:** Richard Reinhard ~ **E-Mail:** rreinhard@shaw.ca

Performance: 1996 **116.9%**; 1997 **28.1%**; 1998 **36.4%**; 1999 **39.4%**; 2000 **180.9%**; 2001 **-50.5%**; 2002 **18.7%**; 2003 **28.8%**; 2004 **166.7%**; 2005 **28.2%**; 2006 **153.3%**; 2007 **8.8%**; 2008 **–25.2%**

Junior Resource Sector Research

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" So I believe that the great commodity companies will still be great investments but going through this pain is something that's real. It's not imaginary. The only imaginary part of it is the feeling that it can't get better, it can only get worse." ***– Don Coxe, BMO Chief Global Strategist***

GOLD - Could This REALLY Be It?

Gold started to move up last Friday with a $50 jump to $800 per ounce, and gained another $30 by mid-day Monday. The only other time gold had such a move in the last 20 years was just 2 months ago, which also took it back up to $800 per ounce. It had already been moving up in something of a stealth rally all week, and is of course one of the few metals still in a bull market – up in price over the past year. Friday's rally in gold was only outshined by the rally in gold equities.

Red Back Mining (RBI-TSX) came to market on Friday and raised $60 million (17,150,000 common shares at $3.50 per share) in new equity. The company's bought deal offering was originally intended to raise $40 million but was quickly "upsized" in response to strong investor demand. The deal dragged the company's share price lower in early Friday trade, before the rally in gold and gold equities took hold and propelled the company's stock to $4.80, and then to as high as $5.33 on Monday.

Whether a short-covering rally, or something more sustaining, gold has now tested and re-tested the $700 level where support was strong. Besides, have you tried buying physical gold anywhere near today's spot price? Premiums are at historical highs, while the physical market has been under steady accumulation.

Most investors who are contrarians or who play resource stocks have been impatiently waiting for gold to go. After all, the perfect storm for gold has arrived; US financial institutions are falling like dominoes, we have deflation, central banks are working 24/7 to create liquidity. We just couldn't ask for anything more. What most have missed however, is that while gold has been mired down in U.S. dollar terms, it's price in terms of Euros, the British Pound, the Canadian dollar, etc has broken out to the upside. Really what the issue is – why has the U.S. dollar been on such a tear, masking the underlying strength of precious metals and most commodities?

Noted technical analyst John Murphy says it's a mistaken notion that gold only works as a hedge against inflation. It can also act as a hedge against deflation. And that may explain why gold has suddenly started to jump. Murphy says there are at least two reasons why gold does well during deflation. One is that gold often attracts money when stocks are in a bear market. Another is that gold thrives in an environment of falling interest rates.

Only God knows if and when gold will perform as these people expect. We suspect the U.S. dollar's easing will spark a massive gold rally in U.S. dollar terms. But our job is to profit from it no matter what way it's going!! Don't fight reality. Don't fight the tape. The market can remain illogical longer than you can remain solvent as the old adage goes, or something like it.

So if gold is going substantially higher near term, but we want to hedge our bets and have our downside risk somewhat covered, where do we put our money to use? While seniors will (and are) moving first, the intermediate and junior producers have much more leverage, or beta, to gold. And they have been crushed a lot worse too – their stock charts could bounce up HARD if gold really does go. Meanwhile, the charts suggest they're already off their well-tested lows, and inching up under patient accumulation, so the downside may be limited.

Greedy yet? Here are some well-capitalized producing gold companies for you to consider:

Peer Group Comparables

	Sym	Sh o/s M	Price C$	Mkt.Cap	Cash Bal (M)	Gold oz (M)	Mkt.Cap/oz
Alamos Gold Inc.	AGI-T	95.8	5.57	533.6	40.0	4.12	129.5
Anatolia Minerals	ANO-T	83.1	0.92	76.5	86.4	6.60	11.6
Atna Resources	ATN-T	82	0.32	26.2	24.0	2.30	11.4
Axmin Inc.	AXM-T	272.3	0.11	30.0	6.4	2.60	11.5
Eldorado Gold Corp.	ELD-T	366.2	6.34	2321.7	51.6	14.10	164.7
Nevsun Resources	NSU-T	128.2	0.64	82.0	47.1	4.90	16.7
New Gold Mining	NGD-T	212.8	1.29	274.5	251.1	16.13	17.0
Red Back Mining Inc.	RBI-T	188.7	5.29	998.2	72.1	4.94	202.1
Rusoro Mining	RML-V	395.7	0.30	118.7	12.0 (est)	16.20	7.3
Peer Group Average	-	-	-	491.0	67.3	**8.47**	61.4

Alamos Gold (AGI-TSX) has $40 million cash, no debt, and growing production and cash flow from its Mulatos gold mine in northern Mexico. Cash costs are a very low $400/oz – and going lower in 2009. Production is increasing marginally from 150,000 oz in 2008 to 165,000 oz in 2009. Well respected management and good share structure. It is already trading 10x expected 2008 cash flow per share of 55 cents (Canaccord Capital, Nov 2008) but because of low costs has great leverage to gold and is a proven performer.

Eldorado Gold (ELD-TSX) is one of, if not the, lowest cost junior/intermediate producer, producing 300,000 oz at just under $300/oz. In today's high cost environment, that's very good. They operate two mines, and have more than 14 million ounces in resources. They have $51 million cash, and $35 million debt, with growing cash flow every quarter. Production in 2009 is expected to be 350,000 oz, and in 2010 450,000 oz. It's highly liquid and well covered by analysts. Great beta to gold, i.e. it responds strongly to movements in the gold price.

New Gold (NGD-TSX) has about $250 million, or over $1 per share in cash. It trades at about $1.25 per share. The company produces 230,000 oz of gold from 3 mines, in Brazil, Australia and Mexico. Cash costs are $566 per ounce, and cash flow even at these low gold prices was $33 million in the first 2 quarters of 2008 – and that's with their poorly performing Brazilian mine, Amapari. Once they either close or fix that asset, cash flows will increase. They have a strong development pipeline with a new mine in Canada readying to be built.

Rusoro Mining (RML-TSXv) – Yes it's in Venezuela, but they are the "Partner of Choice" for the State. They have about $12 million in the bank and should produce 160,000 ounces of gold in 2009 (up 50% from 2008), at a cost of roughly $500 per ounce. At $800/oz. they should produce cash flow of $48 million, or roughly 10 cents a share. Other gold companies in their peer group (Alamos, Gammon, Red Back) trade at 6x cash flow – or 60 cents per share for Rusoro, a double from here. They also have a 16 million ounce gold resource, twice their peer group's average, and adding more all the time. The Venezuelan currency has virtually collapsed with the oil price, taking Rusoro's costs along with it, substantially increasing their margins.

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