THE IFA's Wealth Gram

LA TRIBUNE MENSUELLE DES MEMBRES DU GSCGI
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Vol. III - N° 28 - Mai 2014

SOME GOLDEN NUGGETS IN A WASHED OUT SECTOR

RBC Capital Markets
RBC Marchés des Capitaux

Growing Chinese demand could replicate the 2005-08 ETF driven gold rally

Elements now in place for a sustained gold rally

We see similarities between the 2005 to 2008 gold price rally and the current gold price environment, which ***we believe could lead to a sustained gold price rally over the next 12 to 24 months***. While the recovery in the gold price from its $1,178/oz lows is still in the early stages, we believe that Chinese and emerging market gold demand combined with the absence of Central bank selling both offset any ETF liquidation related to tapering, and create the environment for a sustained higher gold price move characterized by "***higher lows as investors buy the pullbacks***". We forecast an average annual gold price of $1,375/oz in 2014, with a broad trading range of $1,250/oz to $1,450/oz and an average of $1,400/oz in 2015 with a broad trading range of $1,300/oz to $1,500/oz.

Gold ETF products provided new demand in 2005

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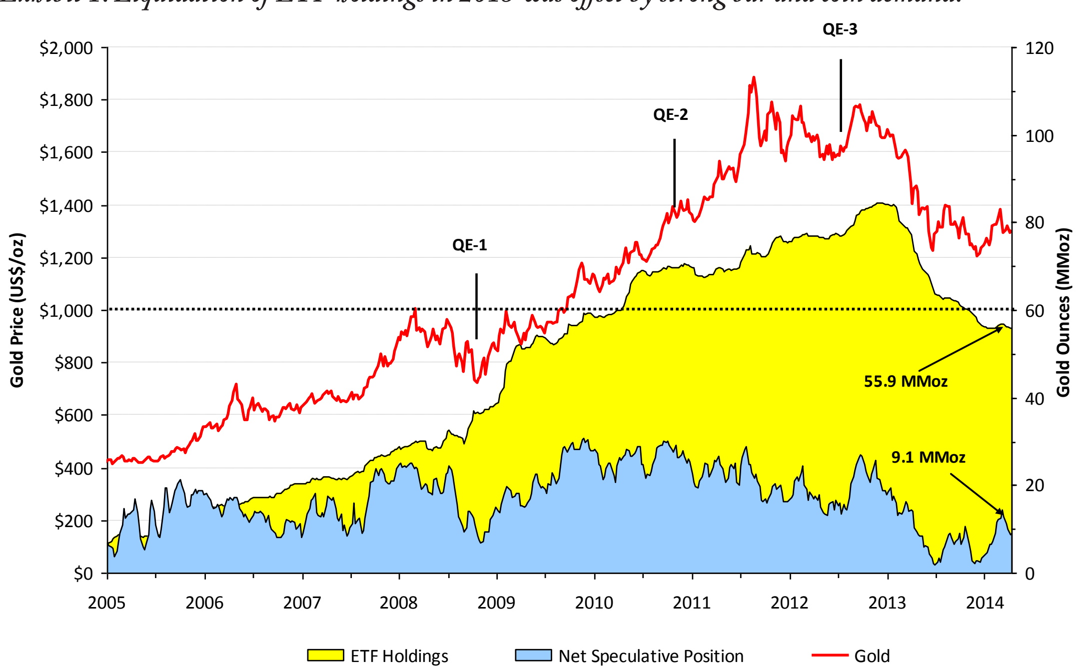
Exhibit 1. Liquidation of ETF holdings in 2013 was offset by strong bar and coin demand.



Source: Comex, Bloomberg, April 25,2014

China is now a significant and likely sustainable demand component

A major change in y-o-y demand has been the emergence of China as the world's largest consumer of gold. In 2013 Chinese gold demand was estimated to be 34% of global demand in a remarkably steady fashion. We estimate that the 1,497 tonnes *(gross)* exported to the

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mainland from Hong Kong in 2013 represents ~0.7% of Chinese GDP, ~3% of household savings and ~15% of urban Chinese mainland household savings.

An important consideration is the increased availability and liquidity for physical gold in the Chinese Mainland market that began in 2011 *(Exhibit 3)*. We believe that between the inability for citizens to own gold on Mainland China before 2005 and the illiquid nature of the bullion market prior to 2011, with little or no retail distribution of physical gold coins and bars, it has set the stage for significant levels of sustainable demand for gold, especially with an estimated ~40% pullback in the Renminbi gold price since late 2011.

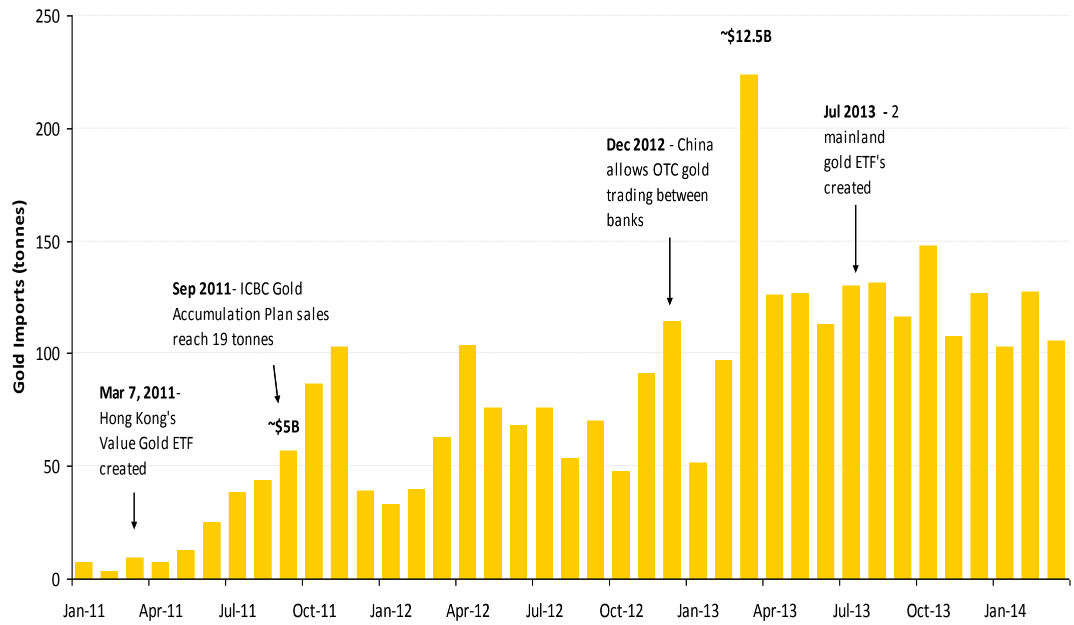
Near term risks to downside are moderate

Risks include significant new IMF/Central bank selling as part of the European Central bank gold sales agreement that is expected to be renewed upon the September 27th, 2014 expiry. Also, should the Emerging market currency/ economic crisis escalate, then local central banks could sell gold holdings similar to what occurred during the Asian Tiger currency/ economic crisis in 1997-98.

Gold Equity Investment Ideas

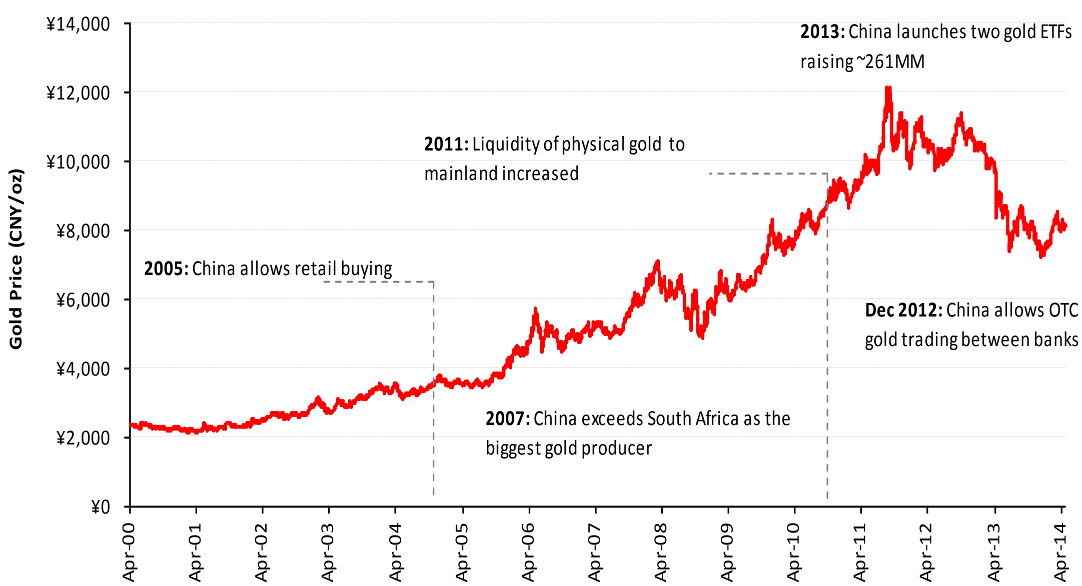
Our best North American large cap investment ideas include Goldcorp, New Gold and Franco-Nevada.

Exhibit 2. Total Monthly China Imports of Gold from Hong Kong including bars, jewellery and coins.



Source: GFMS, Hong Kong Census and Statistics Department

Exhibit 3. Chinese Renminbi denominated Gold Price.



Source: Bloomberg

Goldcorp Inc. (GG $24.82; G C$27.23)

Near-term organic growth: Goldcorp has the best 3-year gold production growth *(11% CAGR 2013-2016E)* among the Tier I gold producers, with a portfolio of low cost operations *(~$533/oz by-product and ~$919/oz AISC)*. Key investment highlights are:

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— **Pipeline of new mines**: Goldcorp has three new mine starts with Cerro Negro *(mid-2014)*, Eleonore *(late 2014)* and Cochenour *(late 2015)*, that are expected to contribute a combined 1.4MMoz in 2015, more than offsetting the sale of Marigold and expected production declines at El Sauzal, Red Lake and Marlin.

— **Improving margins**: While Goldcorp's Reserves for operating mines declined 28% to 35.5MMoz y/y, the life-of-mine average Reserve grade increased 26% to 0.95 g/t, which should improve operating margins.

— **Growing net free cash flow**: Goldcorp offers growing net free cash flow and at a $1,300/oz gold price we forecast a change in cash position after dividends of $545MM in 2014, which rebounds to $959MM in 2015.

New Gold Inc. (NGD $5.11; NGD C$5.60)

New Gold is a Tier II gold producer with four producing mines located in mining friendly and geopolitically stable jurisdictions. Led by a strong management team and board of directors, New Gold is well positioned financially and technically to deliver on its long-term strategy and growth opportunities. Key investment highlights are:

— **Solid longer term growth**: While gold production is expected to decline near-term as Cerro San Pedro winds down, longer term, New Gold offers attractive growth prospects with gold production expected to increase at 3- and 5-year CAGRs of 8% and 10% respectively through 2017 and 2019.

— **Strong sustaining cash flow**: With low cost production from New Afton and declining capital expenditures at Mesquite, New Gold offers strong sustaining free cash flow (SCF). Over the next 3 years, SFCF is expected to average $0.49/sh implying a yield of 10%.

— **Consistent strategy**: A key differentiator has been New Gold's consistent strategy, which within the precious metal sector, is essential to delivering long-term shareholder value. Unlike many of its peers that have followed a "flavour of the day" approach, New Gold has stuck with its strategy of building a low-cost intermediate producer with assets in favourable geopolitical jurisdictions.

— **Operational consistency**: Outside of unexpected challenges at Cerro San Pedro and Mesquite in 2013, New Gold has delivered on original operational guidance four out of the last five years, a significant feat relative to a majority of its peers.

Franco-Nevada Corporation (FNV $47.72; FNV C$52.35)

Franco-Nevada is a non-operating royalty/ metal streaming company and since the recent IPO in 2007 FNV has delivered steady revenue growth and a sector leading share price performance. We estimate 2014E revenue breakdown of 70% gold, 11% PGM, 16% oil and gas, and 3% other. Key investment highlights are:

— **Proven strategy**: Franco-Nevada has been active in the royalty sector since 1983 and has accumulated a portfolio of 47 revenue producing royalties/metal streams. There are an additional 35 advanced stage mining projects that have revenue producing potential within the next 5 years.

— **Strong Balance Sheet**: Franco-Nevada has no debt and $1.3B in liquidity that is expected to be used to acquire new streaming or royalty agreements.

— **Revenue growth opportunities**: Near term growth in revenues is expected from Detour Lake and Tasiast as a result of the continued production ramp-up, and FNV benefits in 2015 from Barrick's Goldstrike autoclave upgrade project. Within 2 to 3 years significant contributions are expected from the recently acquired Sabodala gold stream, the Tasiast expansion project and the Cobre Panama gold stream.

RBC Capital Markets, LLC makes a market in the securities of Franco-Nevada, Goldcorp Inc. and New Gold Inc.
A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from New Gold Inc. in the past 12 months.

Mr. Stephen Walker has worked as a top ranked gold analyst in the North American securities industry since 1994 and was a senior mining analyst with RBC Capital Markets before becoming the Director of Canadian Equity Research in 2002. In 2005, he was appointed Head of Global Mining Research and is responsible for coverage of senior North American gold companies, coordination and marketing of RBC Capital Market's global mining research product and co-managing the firm's global mining business strategy.

Stephen WALKER
Managing Director
Head: Global Mining Research

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Canada is one of the safest banking systems in the world, which reinforces the strength and stability of RBC. We are ranked as the largest bank by assets and market capitalisation in Canada.[2]

RBC provides personal and commercial banking, wealth management services, insurance, investor services and capital markets products and services on a global basis. With 79,000 employees, RBC serves more than 16 million personal, business, public sector and institutional clients through 70 offices around the globe.

RBC Capital Markets is the investment banking and capital markets arm of RBC. We are a premier investment bank that provides a focused set of products and services to corporations, institutional investors and governments around the world. With more than 7,100 professionals, we operate out of 70 offices in 15 countries across North America, the U.K., Europe, and the Asia-Pacific region. We work with clients in over 100 countries around the globe to deliver the expertise and execution required to raise capital, access markets, mitigate risk and acquire or dispose of assets.

RBC Capital Markets' Global Investment Solutions team is a group of highly-experienced market professionals who design structured products for a diverse set of institutional and private clients. Our global expertise is integrated across asset classes and includes equities, fixed income, currencies, commodities, funds and alternative investments - we will search for the best solution.

In Switzerland, the Global Investment Solutions team provides a comprehensive "one- stop-shop" service to investors of structured products. The multi-cultural team has an ethos dedicated to providing best-in-class products, innovation, transparency and consistency.

[1] *Source: Bloomberg, as of November 28, 2013. See RBC 2013 Annual Report*
[2] *World Economic Forum, Global Competitiveness Report, 2008, 2009,*

Due to its low risk profile and consistently strong credit ratings, RBC is well positioned as a stable counterparty.

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