
Australian Champions (series 2)

Northern Star Resources Ltd

"It is awesome... I honestly can't believe it. It is a dream come true - best thing in the world."

*-----AFL player Dustin Martin talking
to the Herald Sun after the Tigers won the Grand Final*

*"Ten Reasons for Wise Men to Follow a Northern Star"*¹*

----- Bill Beament CEO, Northern Star

*"A business first and a mining company second"*²*

----- Bill Beament CEO, Northern Star

"Dear Clients,

30 September 2017 was one of the happiest days in my life, the AFL 2017 Grand Final day.

On the day, the Tigers fans roared, shouted, sang, danced, got plenty of drinks, on the streets, in the pubs, at homes, and of course inside the heart of the Tigerland – the MCG. So much happiness burst out after 35 years of waiting.



Source: Richmond FC Official Facebook Page

I am more a natural Tigers fan (by heart) as for the first 10 years of my life in Australia, I lived in Tigerland Richmond, hearing the fans roaring from the MCG most weekends, and from time to time going down to the London Tavern for a beer or two.

Great win for Tigers, Yellow & Black, you are so amazing.

"The Rush That Never Ended", a book written by Melbourne University professor Geoffrey Blainey, told us lots of fascinating stories of Australian mining history. One of my very first investments (or you may call it speculation) in the market in the earlier 90s was a little gold stock called St Barbara Mine (SBM), I bought the stock at \$0.39, a couple of weeks later I sold it for over \$0.50. I was so excited, but then watched as it went to \$2.50 one year later. That's why I got hooked into the share market and eventually became a so called "stockbroker" (financial adviser). Then, a few years ago, sitting on a stockbroker's house desk, I watched SBM changing hands at \$0.15 a share. Now it has again rebound back to around \$3. The world seems so amazing, especially when it comes to the yellow metal stock.

In the last couple of decades, we have witnessed some of the same great mining stories similar to the olden times, some minor mining companies that have been growing into the big ones. Some of those great success examples are: the iron ore sector, FMG; oil & gas sector, WPL; gold sector, the North Star Resources.

The Australian Champions **Northern Star Resources Ltd (NST)**

When Bill Beamer joined Northern Star 10 years ago in 2007 as CEO, the share price was around \$0.10, market cap was \$10 million. The share price now is around \$5, and the market cap of the company is over \$3 billion. The company currently has no debt but over \$400 million of cash, it is sitting on a 10.2 million ounce gold resource, and has over 3.5 million ounces in reserve. How was Bill and his team able to achieve that?



Source: www.nsrltd.com

Everything at the beginning is always difficult. When Bill joined NST, it was a little exploration company with little money, which means the company only received a couple of exploration permits, had no

resources, and was burning money fast. It always needed to raise money to survive. The first raising was \$1.35 million for an exploration project. The second was a rights issue in 2008, just before the GFC crash. The rights issue was delayed and later cancelled. Luckily after things settled down, with the help of its stockbroker, the company was able to tap the market again for some funds in March 2009. The great luck struck in 2010, when Bill and his team spotted an opportunity to buy a gold mine he used to work for called Paulsens in Western Australia. The mine had a plan for producing 45,000oz of gold pa, and had an estimated resource of 128,000oz. The owner first agreed to sell it to NST for \$27 million, then it changed its mind as gold price jumped, but finally they settled on \$40 million and the purchase was closed.

NST has never looked back since then. In the first 7 months after NST took over Paulsens, with a very talented geology team under Bill, they almost recovered their purchase price, increased the resource to over 250,000oz, and set up a mine plan to produce 75,000oz pa. The mine proved to be so sensational that later on one of the drill holes yielded 3390g/ton, which is probably the highest grade I have ever heard of, as the normal average grade for many gold mines we hear about is around 1g/ton.

With a cash cow like Paulsens, NST was able to continue its corporate activities, picking up some more nice gold mines, and shareholders have been happy to continue supporting the growth with extra funding.

In 2011 it also bought Ashburton, paying \$0 upfront but a royalty on production. In 2013 it bought Plutonic, one of the most famous mines for \$25 million. Plutonic had been in production for over 20 years, over 5 million oz had been mined, and Bill had worked there for over eight years. NST later sold Plutonic in 2016. In Jan 2014 it bought East Kundana for \$75 million and Jundee for \$82.5 million, Figure1.

Some of the secrets of NST's (and many successful companies) success as I observed include:

- Strong Leadership with a team of skilful people
- The leaders' abilities to smell the opportunities
- Being ready (or having the ability to get ready) to take "risks"
- Running the business efficiently: "A business first, and a mining company second"

That's why I guess, even though the gold price slumped from late 2011 at US\$2000 per oz to around US\$1200 per oz in 2015, and even though it didn't have much hedge, it was still able to create value for shareholders and paid taxes (Figure2 &3)

Figure 1

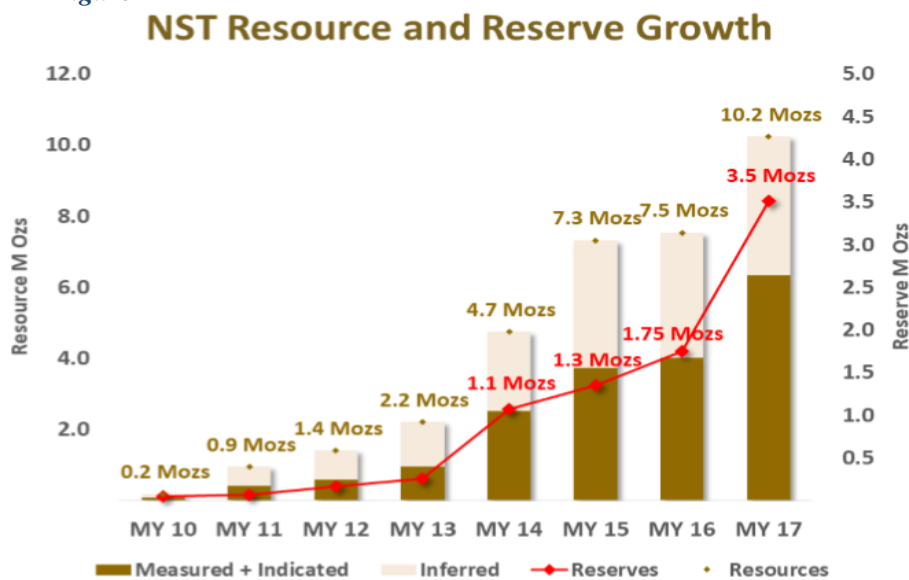
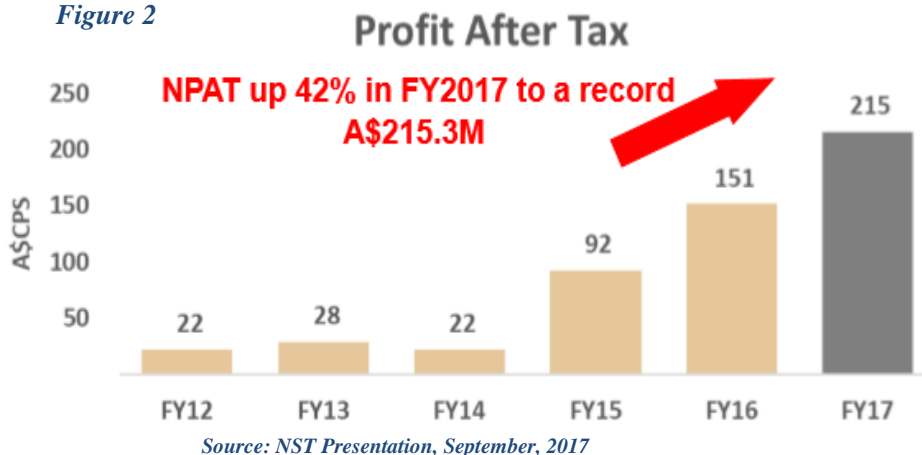


Figure 2





Source: NST Presentation, September, 2017

Recently *the Australian* reported that there is a big rush by gold prospectors hunting gold in the Pilbara region in Western Australia. Some metal detectors cost over \$10,000 and shops selling them had frequently sold out.

You may ask where do I think the gold price is heading? The simple answer is I don't know, but I trust that people who manage businesses well are still able to create value in the long run.

The Aussie Dreams Never End, Spirit Alive.

Go Aussie

Charley Wang

Managing Director

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Notes & Disclosure:

* 123 IGF has shares in NST

*¹ NST May 2012 Presentation (share price \$0.37)

*² NST Denver Gold Forum - September 2017 Presentation

123 Investment Management Pty Ltd is the Investment Manager for **123 Investment and Growth Fund (123 IGF)**. Charley Wang (Master of Finance, Melbourne University) is the CIO of 123 IGF, he has been working in the financial industry for over 20 years, including 15 years with Morgan Stanley Wealth Management (formerly Smith Barney Citigroup).

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