UOB Asset Management – Gold Update *8 August 2011*

GOLD EQUITIES SET TO SHINE

Summary

The gold price has moved above US$1,700/oz and is close to our December 2011 target price of US$1,750/oz.

We expect the gold price to stay elevated, as the World Gold Council is expected to report strong 2Q11 Chinese & Indian retail investment demand figures next week. Thus far, gold equities have yet to re-rate with the gold price even though 2Q11 operating margins remain near record levels. In fact, operating margins are well above the levels seen in previous periods when gold equities had de-rated. We believe that the catalyst for the gold equities re-rating will be an upward revision in analysts' gold price forecasts.

Gold price at record levels

Today, the physical gold price moved above US$1,700 per ounce, on heightened risk aversion. We expect prices to remain strong on negative interest rates, central bank buying and possible further stimulus measures. Additionally, gold should see increased exposure in institutional and retail investment portfolios.

Although the gold price appears extended at current levels (it is currently trading about US$175/oz above its 200-day moving average), we believe there is further upside momentum, after the release of the World Gold Council market update in mid-August 2011. In particular, we expect the data to confirm our expectations of strong investment demand from China and India.

Gold price at record levels

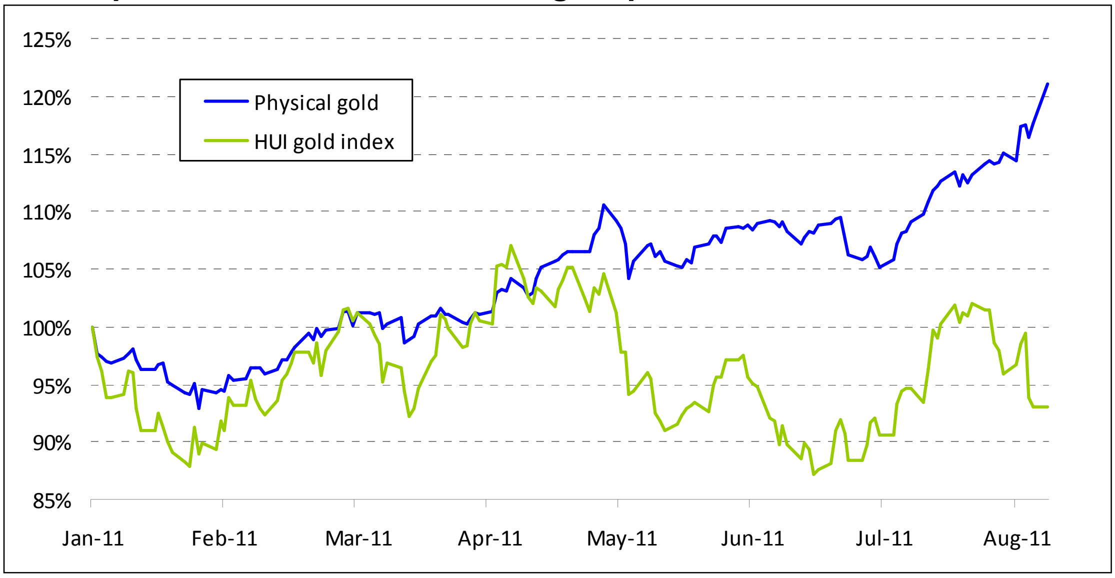
Source : Bloomberg, 8 August 2011

Gold equities have de-rated relative to the gold price

Since the start of the year, the physical gold price has risen by 21%, while gold equities (as measured by the HUI Gold Bugs Index - an aggregate of 16 gold companies) fell by 7%.

Based on our analysis, we believe that the divergence in performance was driven by concerns that the operating margins of these gold companies would be compressed by escalating costs, to the extent that there could be insufficient cash flow for higher capital spending. Furthermore, gold equities have historically de-rated in previous periods of financial market stress.

Gold equities have not matched the gold price



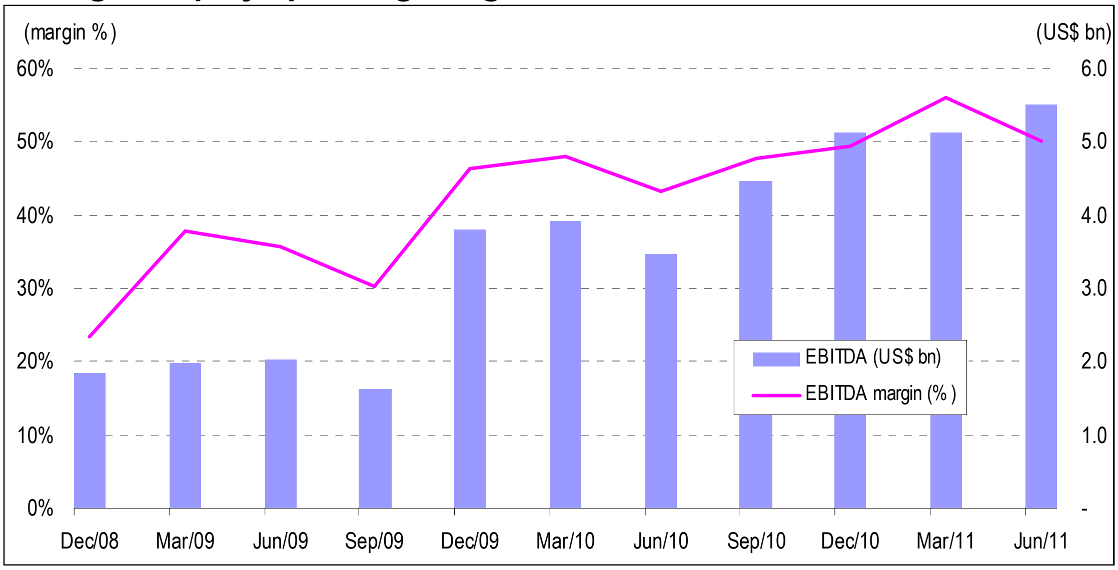
Source : Bloomberg, 8 August 2011

2Q11 operating margins remain robust

We are currently halfway through the 2Q11 gold equities reporting season. To date, we estimate that operating margins are down only slightly from the record 1Q11 levels, and are still above levels seen in previous quarters. Moreover, aggregate earnings before interest, tax, depreciation and amortization (Ebitda) are at record levels.

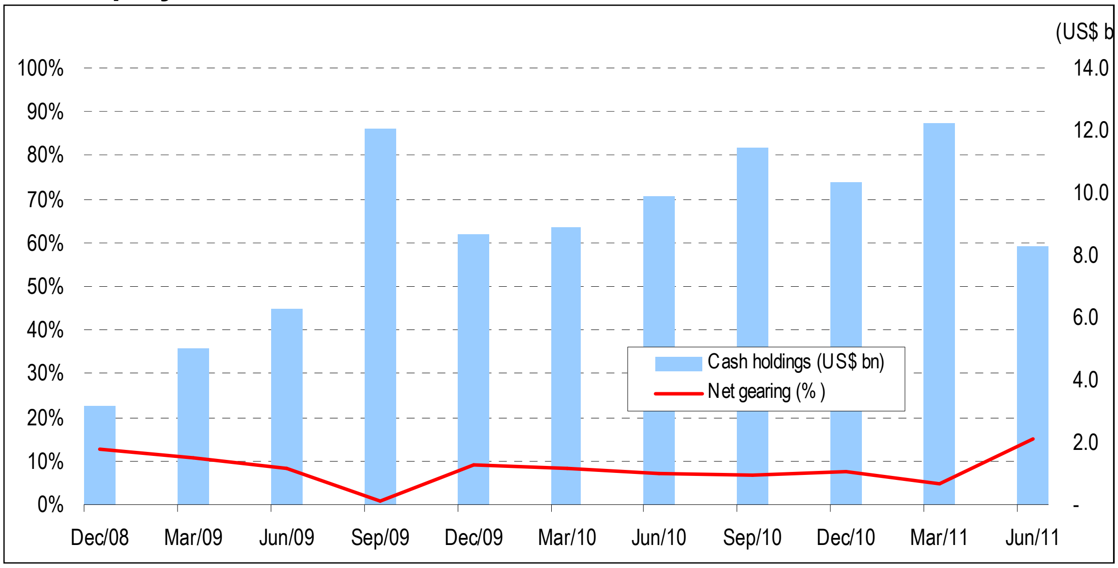
Looking forward, the recent gold price level makes it probable that 3Q11 operating margins will likely surpass even 1Q11 levels. Meanwhile, cash and net gearing levels remain low, with the 2Q11 increase in net gearing largely explained by Newmont Mining's US$2.1 billion all-cash buyout of Fronteer Gold. Nearly all expansion projects appeared well-funded, even before the recent surge in the gold price.

2Q11 gold equity operating margins remain robust



Source : UOBAM, 8 August 2011

Gold equity balance sheets are not stretched



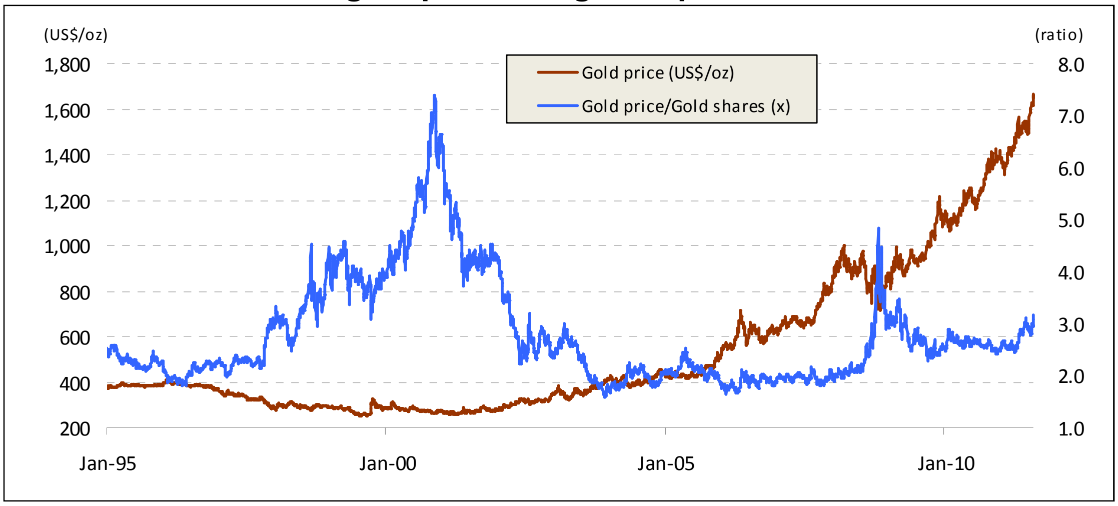
Source : UOBAM, 8 August 2011

Can gold equities re-rate?

In the current environment, investors are concerned that gold equities may continue to underperform relative to the gold price, similar to the October 2008 - March 2009 period immediately after the 2008 financial crisis.

Year-to-date, the ratio of the gold price to gold equities has widened from 2.5x to 3.2x since March 2011 (a rising ratio means that gold equities are underperforming). The concern is that the ratio could increase to the 4.0x levels seen during the financial crisis, and even during the 1990's.

Historic ratio between gold price and gold equities

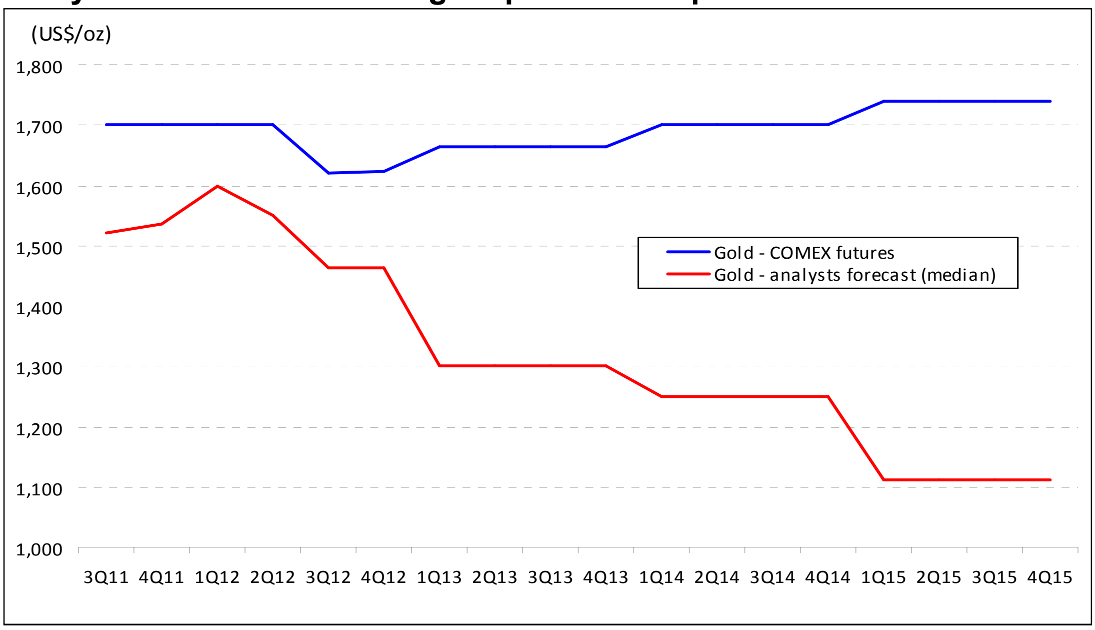


Source : Bloomberg, 8 August 2011

Our view is that gold equities will start to re-rate relative to the gold price, for two main reasons.

The first is that the physical gold price will remain at elevated levels, and that investment analysts will probably revise their gold price assumptions and target prices upwards.

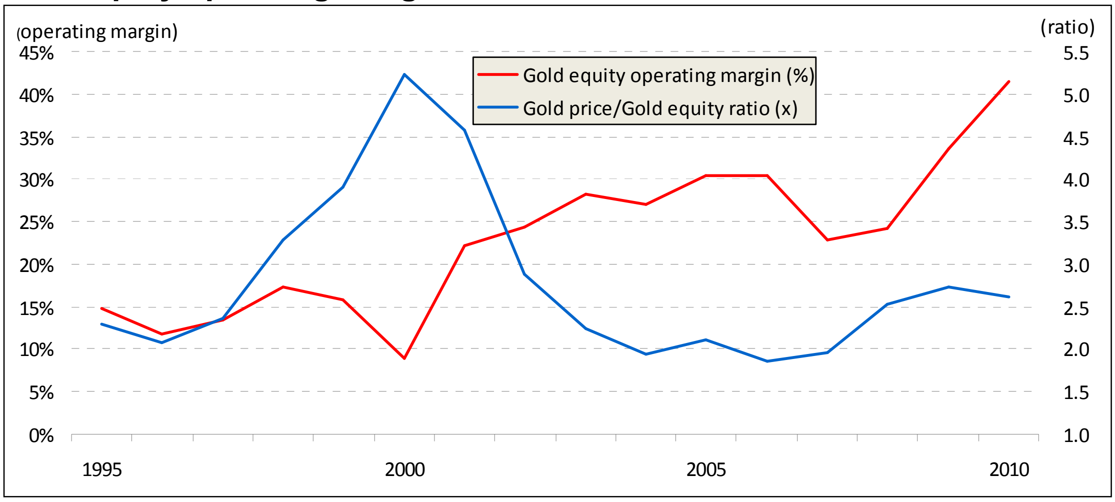
Analysts need to raise their gold price assumptions



Source : Bloomberg, 8 August 2011

Secondly, current operating margins are well above previous years, and may soon reach record levels.

Gold equity operating margins at record levels



Source : Bloomberg, 8 August 2011

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