

Chart Focus:

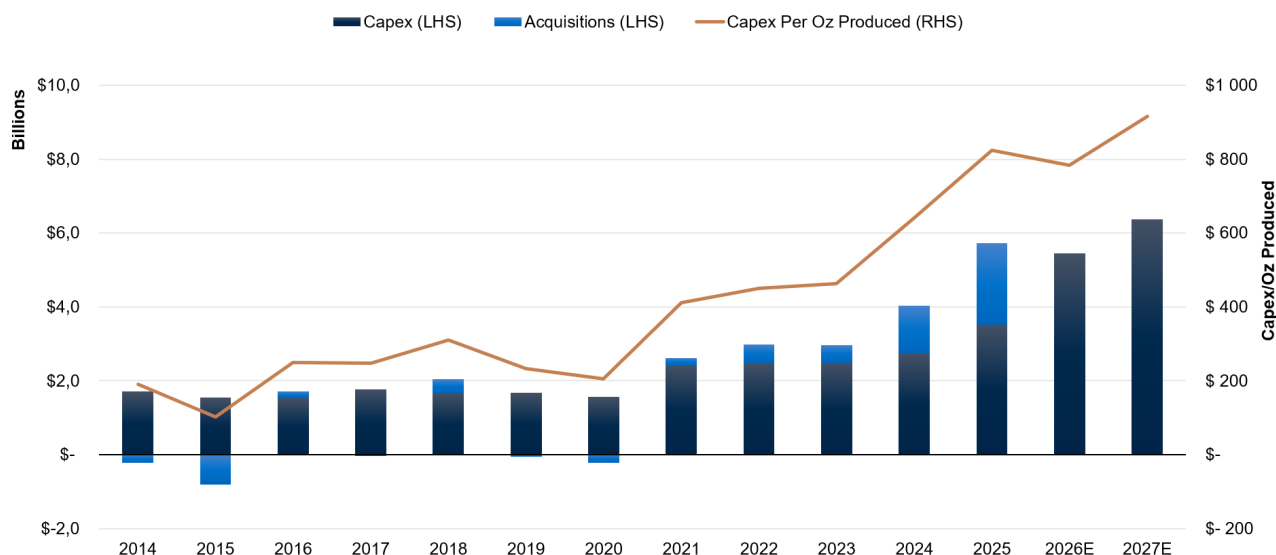
Peak Earnings, Rising Capital Intensity

This quarter's chart focus considers whether the strong earnings currently being generated by gold producers can be sustained. While sector cash flows remain exceptionally strong, we believe rising capital requirements and cost pressures will increasingly constrain future shareholder returns.

A common misconception is that higher gold prices automatically translate into higher shareholder returns. While this has been true over the past few years, we believe the next phase of the cycle will be more challenging.

The reason can be seen in Figure 1. Over the last decade, gold producers have been forced to spend increasing amounts of capital simply to maintain and replace production. Sector capital expenditure (i.e., capex) has more than doubled since 2020, while acquisition activity has accelerated as companies compete for a shrinking pool of quality assets.

FIGURE 1: SECTOR (INCL. ANG, GFI & HAR) CAPEX SPEND



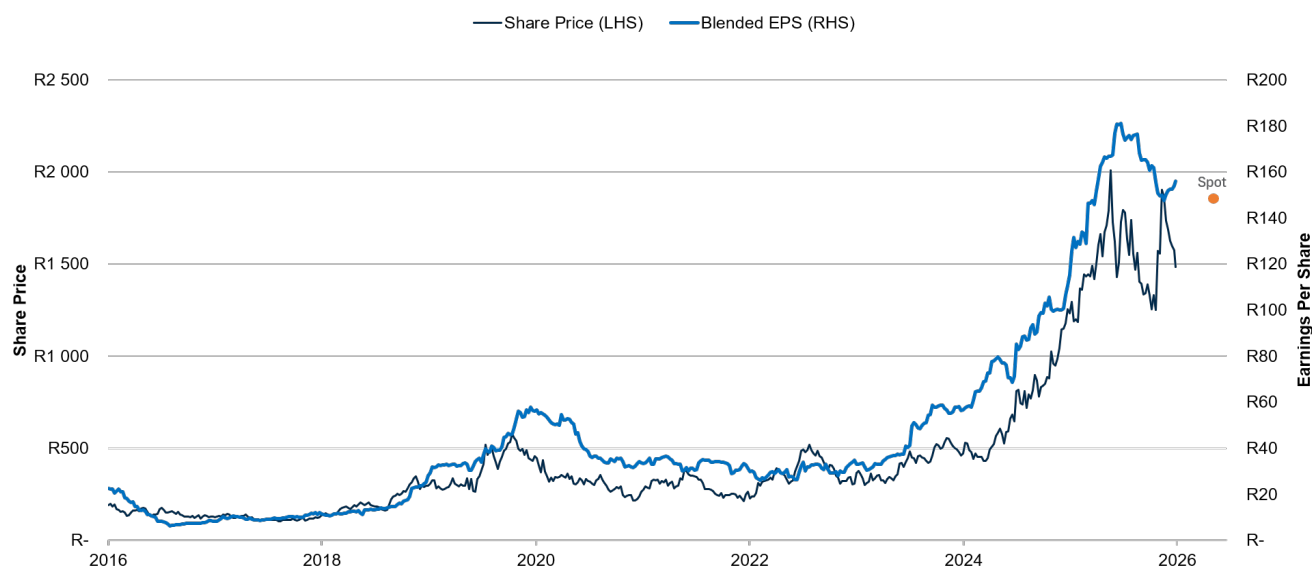
Source: Company reports, SBG estimates, BlueAlpha Investment Management

Even more concerning is the sharp increase in capex per ounce produced across the sector, which has risen from roughly US\$200/oz a decade ago to more than US\$800/oz in 2025. Despite strong profitability, the industry is finding it increasingly difficult and expensive to sustain production and replace reserves.

Much of this reflects the depletion of higher-quality ore bodies. New projects are deeper, lower grade, and more complex, while infrastructure, environmental, and development costs continue to rise. Harmony provides a useful local example. Although highly leveraged to the gold price, the company is entering a period of elevated capex through the Eva Copper project and other growth initiatives, a trend that is likely to weigh on free cash flow generation.

As a result, we believe 2026 is likely to represent peak earnings for much of the gold sector. Rising operating costs, sustaining capital requirements, and growth expenditure are increasingly offsetting the benefits of higher revenue. Cost inflation remains a risk, with labour, power, consumables, and contractor costs continuing to trend higher.

FIGURE 2: ANGLOGOLD ASHANTI EARNINGS PROFILE



Source: Bloomberg, UBS Estimates, BlueAlpha Investment Management

Figure 2 highlights the market's growing focus on earnings sustainability. While AngloGold's earnings profile has improved materially over the last few years, its share price has come under pressure in 2026.

This suggests that investors are starting to look beyond near-term earnings and place greater emphasis on the durability of free cash flow. Rising costs, growing capital requirements, and the need to continually replace reserves raise questions about the sustainability of current profitability levels over a full cycle.

For gold equities to rerate materially from current levels, a significantly higher gold price may be required to offset these pressures. Without a sustained gold price above US\$5,000/oz, rising costs and increasing capital intensity are likely to limit earnings growth and free cash flow expansion.

The next phase of the cycle is therefore unlikely to be driven by production growth alone. Instead, investors are likely to reward companies that can convert strong earnings into durable free cash flow while maintaining reserve quality and production longevity.