



2 Junior Gold Miners Soaring to New Heights

Description

The recent spike in the gold price has seen renewed investor interest in heavily beaten-down gold mining stocks. This not surprisingly sees two of the biggest gainers on the TSX for the year-to-date being gold mining stocks. Already for the year-to-date, **Detour Gold** (TSX:DGC) is up an incredible 141%, while **Osisko Gold** ([TSX:OSK](#)) has shot up 48%. Let's take a closer look why these gold miners are performing so strongly and whether they will continue to do so.

This intermediate gold producer is set to soar

Detour Gold's flagship asset is its 100% operating interest in Canada's largest gold mine, the Detour Lake gold mine, which commenced operation in February 2013. The company has gold reserves of 15.6 million ounces calculated using a particularly conservative gold price of \$850 per ounce.

This price is significantly lower than **Yamana Gold's** ([TSX:YRI](#))([NYSE:AUY](#)) \$950 per ounce and **Barrick Gold's** ([TSX:ABX](#))([NYSE:ABX](#)) \$1,100 per ounce. And with gold continuing to rally, the potential for Detour Gold to boost reserves as greater quantities of gold ore become economical to mine increases.

For the full year 2013, its first year of operation, Detour Gold reported gold production of 232,287 ounces which was marginally lower than its 2013 guidance of 240,000 ounces. This shortfall was primarily caused by the need to shut down the mine in December 2013 because of operational glitches, but this is to be expected from new mines when they come online. Impressively though, Detour Gold was able to achieve an average price per ounce of gold sold of U.S. \$1,318, despite softer gold prices throughout 2013.

Detour Gold's future outlook appears particularly positive, with 2014 guidance indicating that gold production is expected to more than double in comparison to 2013, to between 450,000 and 500,000 ounces. The only question mark hanging over its 2014 performance is estimated all in sustaining costs have been estimated at between \$1,091 and \$1,191 per ounce.

This is higher than many of its more mature peers like New Gold, which has forecast 2014 all in sustaining costs of \$U.S. \$815 to U.S. \$835 per ounce. But with the price of gold rallying to U.S.

\$1,320 per ounce, Detour Gold is still generating a healthy margin of between \$129 and \$229 per ounce sold.

Growing takeover speculation is fueling this junior miner's share price

Small-cap gold miner Osisko operates one of Canada's largest gold mines, the giant Malartic project in Quebec. It has also found itself at the centre of a bitterly contested hostile takeover bid by Canadian gold mining heavy weight **Goldcorp** (TSX:G)(NYSE:GG).

Goldcorp has valued Osisko at around \$6.70 per share. But with Osisko now trading at around \$7 per share, its board has obviously called it inadequate and urged shareholders to reject the offer.

The strength of the company's operations and its attractiveness as a takeover target for Goldcorp is clear. Osisko reported record full year 2013 gold production of 475,277 ounces, which was 22% higher than 2012 full year production. It also has cash resources of almost \$211 million on hand, which is an increase of almost 23% over the previous quarter, while reducing its debt position by \$39 million over the course of 2013.

Osisko has reported gold reserves of 10.1 million ounces of gold, but this was calculated using an overly optimistic gold price of \$1,475 per ounce. This is of concern because it is higher than the price of gold of U.S. \$1,320. If gold prices soften, some of those gold reserves would be uneconomic to mine and recoverable reserves would fall significantly.

It is also significantly higher than the gold prices used by many of its peers including Detour, Yamana and Barrick as well as the \$1,300 per ounce used by suitor Goldcorp. That leads me to believe that unless another suitor emerges to bid up Osisko's share price or gold continues to rally significantly, there is little further upside available to investors.

Foolish bottom line

Gold's recent rally has brought the spotlight firmly back on beaten gold mining stocks, with two of the best gold mining stocks climbing because of very different circumstances. Detour Gold's share price has the potential to climb higher based on its 2014 guidance, but Osisko's appears to have run out of steam unless another bidder emerges.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ABX (Barrick Mining)
2. TSX:OSK (Osisko Mining)
3. TSX:YRI (Yamana Gold)

Category

1. Investing

Date

2025/07/22

Date Created

2014/02/19

Author

mattsmith

default watermark

default watermark