



2 Canadian Gold Miners With Strong Growth Potential

Description

Canada is one of the world's largest gold producers after South Africa, the U.S., and Australia. It is also among the lowest-risk jurisdictions for gold miners, with clear regulation, and a stable economy and political system. This makes it a preferred location for investors, with considerably lower risk than higher-risk jurisdictions in Latin America, Africa, and Asia.

This, coupled with recent developments in the gold mining industry in Canada involving the country's two largest gold mines commencing production in the last two years, makes it a solid bet for contrarian investors seeking exposure to the industry.

Let's take a closer look at two gold miners with all or a significant portion of their mining operations in Canada that offer considerable potential upside for investors.

This miner appears undervalued despite a strong share price

Detour Gold (TSX: DGC) has been one of the strongest performers on the TSX for the year to date, with its share price jumping a whopping 190% over that period. This is despite the gold mining industry as whole being out of favour with investors because of softer precious metal prices and an uncertain outlook for the price of gold. Despite this significant appreciation in its share price, there are signs that Detour Gold continues to offer significant growth potential for investors.

The company operates Canada's second-largest gold mine, the Detour Lake mine, which is located in a stable and relatively mining-friendly jurisdiction. The mine has a high ore grade with a recovery rate of over 90% for the last two quarters, which bodes well for it to become increasingly cost-effective and more efficient. This would allow Detour Gold to reduce its all-in-sustaining-costs per ounce of gold produced, further boosting its bottom line.

Detour Gold also remains attractively priced despite this massive appreciation in its share price. It has a particularly low enterprise value per ounce of gold reserves of \$157 per ounce, which is less than half of both **Goldcorp** (TSX: G)(NYSE: GG) and **Yamana Gold** (TSX: YRI)(NYSE: AUJ). This indicates that the market has yet to fully appreciate the value of its gold reserves.

A recent acquisition is a potential game-changer for this Canadian gold miner

It was only earlier this year that gold miner **Agnico Eagle** ([TSX: AEM](#))([NYSE: AEM](#)), in partnership with Yamana Gold, trumped Goldcorp's bid for Osisko Mining. The recent completion of this acquisition has allowed it to obtain a 50% interest in Canada's largest gold mine, the Malartic mine in Quebec.

The mine is also among the lowest-cost gold mines operating in Canada with cash operating costs of \$713 per ounce, which is 27% lower than the Detour Lake mine and 17% lower than **Barrick Gold's** ([TSX: ABX](#))([NYSE: ABX](#)) Hemlo mine. The Malartic mine also continues to report some solid results with record production and mill throughput for the month of May, further underscoring the benefits this acquisition has for Agnico.

This a good sign that Agnico's shares will continue to appreciate in value, with its gold reserves having grown, along with higher production boosting cash flows, and, ultimately, the bottom line.

Furthermore, Agnico is one of the lowest-cost producers in the industry, reporting Q1 2014 all-in-sustaining-costs of \$799 per ounce. This is significantly lower than two of the lowest-cost gold mining majors, with Goldcorp reporting \$840 per ounce and Barrick reporting \$833 per ounce for the same period.

This leaves Agnico well-positioned to take advantage of any further rally in the price of gold. Such low costs also mean that Agnico can remain profitable even if there is a sustained drop in the gold price, which according to some analysts could fall as low as \$1,050 per ounce.

When all of these factors are considered in conjunction with a relatively low E/V of 10 times EBITDA, the company offers considerable growth potential for investors.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ABX (Barrick Mining)
2. TSX:AEM (Agnico Eagle Mines Limited)
3. TSX:YRI (Yamana Gold)

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