



Is Nevsun Resources Oversold?

Description

One of Canada's lesser-known resource companies, **Nevsun Resources** (TSX:NSU) has largely flown under the radar as a mid-tier base metals company due to its portfolio of assets strewn around the globe. Of late, the company's stock price has taken a large hit, dropping more than 20% year-to-date with the market taking exception to the recent top- and bottom-line earnings miss.

Here's why this company may be oversold, and why the fundamentals for this Canadian mining play make it an interesting long-term play with a decent entry point at today's price levels.

Fundamentals

Nothing speaks to the true value of a mining play like long-term fundamentals. After all, it can take years or decades for a mine to be built and for revenue streams to begin to flow to investors.

What we see with Nevsun is a company which has very good cash management with a cash hoard of \$200 million and no debt on the books. Nevsun has been able to acquire assets and bring them to fruition primarily using equity raises, and the company's recent acquisitions provide it with excellent long-term free cash flow potential.

One of the main reasons Nevsun has taken a hit of late is management's decision to cut the quarterly dividend from \$0.04 to \$0.01. This dividend cut translates to a 1.6% yield compared with the previous yield hovering around 5%.

While notable for income investors, the longer-term plays that Nevsun has going on, along with the fact that this move is a prudent conservative cash-management play, should indicate to investors willing to accept short-term pain for long-term gain that Nevsun is a mining play trading at a significant discount.

The fact that the company's book value currently sits at \$3.09 per share and Nevsun's share price in recent days has actually dipped below its book value speaks to the extent to which this stock has sold off.

The market has also taken exception to the bigger-than-expected loss taken by Nevsun in the most

recent quarter; however, it should be noted that many of the associated costs for permitting, exploration and development, and feasibility studies have just begun. I expect these costs to continue into the second and third quarter of 2017, as Nevsun continues to build its mining capacity with its Timok project.

Timok mine may be a game changer

In June of last year, Nevsun acquired Reservoir Minerals and the company's corresponding high-grade assets. Among these, the Timok Project Upper Zone is a copper and gold mine in Serbia with very high grade deposits and the potential to take Nevsun to the next level.

Analysts have described Timok as a tier-one deposit, and with feasibility studies expected to start in Q3 or Q4 2017, investors will be able to place a better valuation on the future cash flows associated with this mine. The costs associated with building this mine will be borne over the coming quarters, so expect volatility to continue as investors place their bets.

Conclusion

Nevsun is a mining company with a long-term strategy that involves strict cash management and smart acquisitions of mines that fit into its long-term corporate plan. The mines that Nevsun operate generate fantastic free cash flow, and its new Timok mine stands to generate significant incremental cash flows for Nevsun in the coming years.

There may be more dips to come for Nevsun, but the fact that the company is trading at or near book value with a strong balance sheet makes this a great long-term mining play for the enterprising investor.

Stay Foolish, my friends.

CATEGORY

1. Investing
2. Metals and Mining Stocks

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/08/02

Date Created

2017/03/13

Author

chrismacdonald

default watermark