



## Forget the Dividend: Nevsun Resources is an Attractive Growth Play

### Description

**Nevsun Resources** (TSX:NSU) is down more than 21% year-to-date, taking a hard hit in February after the company cut its dividend from \$0.04 per quarter to \$0.01 per quarter, a cut which reduced the company's yield from around 5% to the 1.6% level.

Income investors have understandably grown concerned with Nevsun, and many have parted ways with this formerly high-yield mining operation in favour of other lower-risk opportunities in the metals space with similar dividends.

I'm going to dig a bit further into this company's asset portfolio and why Nevsun's dividend does not really matter to me, considering the company's impressive portfolio of assets which should provide ample growth moving forward.

### Great portfolio of assets and conservative management

One of the reasons why I'm not concerned with the dividend cut, but rather slightly encouraged, is why management decided to cut the dividend. Besides the fact that the dividend payout ratio will now be reasonable, management has indicated that it will be redeploying approximately \$120 million of capital over four years toward its Timok mine in Serbia where it will begin to build out its copper mine with funds that would have otherwise been paid out to shareholders in the form of dividends.

While the company has a number of projects currently underway, I will focus on the Timok project, as this is the catalyst many analysts believe will drive profitability in the future, and the company's recently reported results have shown that this high-quality asset may be better than initially expected.

The fact that Nevsun will be capitalizing on the high-quality reserves it reported on early this year, sooner rather than later, is a huge deal for a long-term investor such as myself. Nevsun's Timok mine has reported fantastic results, with some areas of the Timok mine reporting grades of copper and gold at four-to-five times the average grade of mines globally.

With the money contributed to this project that would have otherwise gone toward dividends, the hope is that Nevsun will be able to begin production sooner and grow its free cash flow from this project

accordingly.

## Technical analysis

As an investor with a long-term focus, I don't typically give much credence to technical analysis when it comes to stocks; in the case of Nevsun, however, a clear pattern appears over the past five years which stands out to me (and I'm sure to a lot of technical traders) that indicates Nevsun may be trading at the lower end of its 5-year trading band.

Over the course of the past five years, the stock has dropped to the \$3.00-\$3.50 level approximately seven times, bouncing back to the \$4.50 level shortly thereafter nearly every time, and beginning the downward cycle again. Right now, technical analysis is pointing to Nevsun being attractive on a technical basis, and I can't disagree with this perspective.

## Bottom line

Nevsun is a mining company with lots of upward growth momentum. Conservatively managed, I like this company's prospects over the coming quarters and will be monitoring this stock to see how its portfolio of assets performs accordingly.

Stay Foolish, my friends.

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