



This Underappreciated Gold Mining Junior Could Easily Double

Description

Gold continues to perform well, having rallied strongly since the start of 2017 because of growing global political uncertainty and the increasingly unpredictable nature of the Trump administration. While this certainly bodes well for major gold miners, which haven't enjoyed a prolonged period of firmer precious metals prices since 2014, it has brought the spotlight back on to smaller gold miners and explorers.

These stocks typically offer investors considerable leverage to the price of gold, meaning that the potential rewards are far greater than what the larger miners offer. One gold mining junior that offers considerable potential for investors is **Lundin Gold Inc.** ([TSX:LUG](#)).

Now what?

The company is currently developing the Fruta del Norte gold project located in southeastern Ecuador. In the past, Ecuador hasn't been a particularly popular jurisdiction for precious metals miners because of a strict and opaque regulatory environment coupled with high levels of perceived corruption and geopolitical risk.

Nonetheless, there are signs that the degree of geopolitical risk in Ecuador is easing. The impoverished Latin nation and OPEC member has been one of the countries hit the hardest by the ongoing slump in crude.

As a result, its government has been actively seeking alternate means of generating much-needed export income and revenue.

This has created an opportunity for Lundin, which acquired the Fruta del Norte deposit from **Kinross Gold Corporation** ([TSX:K](#))([NYSE:KGC](#)) in 2015 for US\$240 million. Kinross elected to sell the stalled project after it was unable to come to terms with Ecuador's government.

Lundin, however, after careful negotiations, secured a deal with authorities that was better than that originally offered to Kinross in 2011. That means Lundin has all the major permits required, including the right to develop and produce gold from the deposit for 25 years. Development is on schedule, and

the mine is expected to commence operations in early 2020, reaching full operational capacity by 2021.

The Fruta del Norte ore body is one of the largest gold discoveries in recent times with gold reserves of 4.8 million ounces. There is a particularly high concentration of gold in the ore, making it one of the highest-quality gold projects currently under development anywhere in the world.

In fact, the overall average grade for those reserves is higher than what is considered to be one of the best-in-class gold assets, **Continental Gold Inc.'s [Buritica project](#)** in Colombia.

This is particularly important for investors to note because the higher the ore grade, the more economic it is to extract the gold, meaning the mines costs will be relatively low. For this reason, Lundin has forecast all-in sustaining costs of a mere US\$623 per ounce, which are some of the lowest in the industry.

In an environment where gold is trading at well over US\$1,200 per ounce, the mine should be hugely profitable.

Importantly for a gold junior engaged in developing a major project, Lundin's finances are in a healthy state. At the end of the first quarter 2017, it had long-term liabilities totaling just over US\$3 million, cash on hand of US\$8 million, and total available liquidity of US\$24 million. Combine this with the fact that Lundin possesses all the required permits, and the risks associated with the project's development become negligible.

So what?

While it is a relatively high-risk investment compared to a major gold miner that possesses several operational mines, Lundin is an appealing levered play on higher gold prices that is attractively valued. The quality of its primary asset, its solid balance sheet, management's demonstrated ability to manage the regulatory risks associated with the project, along with falling geopolitical risk mean that once the mine commences operations, the stock could easily double.

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