This Gold Miner Is Positioned to Experience Solid Growth

Description

The recent pullback in gold has triggered a buying opportunity for investors with the yellow metal now 8% lower than it was in August last year, when it reached its highest price since September 2013. This because the underlying fundamentals for gold remain strong, indicating that it will rise further in coming months.

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While large-cap gold miners and precious metal streamers garner the most attention from investors, it is small-cap miners that offer the greatest potential upside.

Nonetheless, when choosing to invest in a junior gold stock, it is important for investors to identify those that have quality assets and solid balance sheets. **Richmont Mines Inc.** (TSX:RIC)(NYSE:RIC) stands out; it is positioned to grow strongly as the price of gold rises.

Now what?

Richmont owns and operates two underground gold mines located in the relatively low-risk and mining-friendly jurisdiction of Canada. These are the Island Gold Mine in Ontario and the Beaufor Mine located in Quebec.

The miner has gold reserves of 797,120 ounces, which have an impressive grade of nine grams of gold per tonne of ore. Such a high grade, or concentration, of the metal in the ore makes it more economic to extract, which is the reason for Richmont's low operating costs.

For the first quarter 2017, Richmont reported cash costs of US$598 per ounce of gold produced and US$849 per ounce for all-in sustaining costs. These numbers were well below the 2017 guidance of US$640-680 per ounce for cash costs and US$905-950 per ounce for all-in sustaining costs.

They are also at the lower end of the scale for the industry, underscoring the quality of Richmont's assets and its ability to perform strongly in a favourable operating environment where gold is rising.

This becomes even more apparent when it is considered that Richmont's 2017 production guidance is 6-15% higher than the record 104,050 ounces produced in 2016. Despite first-quarter gold production falling by 9% year over year to 29,400 ounces, Richmont remains well positioned to meet its annual production forecast of 110,000-120,000 ounces of gold.

The miner also plans to spend US$7.3 million on exploration and mine development activities over the course of 2017, which should lead to higher gold reserves and ultimately higher production, thereby increasing the value of the company.

Richmont's other key strength, aside from its high-quality assets, is its rock-solid balance sheet which is an important attribute of a small-cap miner. At the end of the first quarter, it had $75 million in cash on hand and a mere $6 million in long-term debt, giving it operating cash flow of an impressive seven times its long-term debt.

This indicates that not only is Richmont's level of debt sustainable, but it can easily tap credit markets if and when it needs to raise additional capital. Such a rock-solid balance sheet reduces much of the risk associated with investing in a small-cap gold miner.

So what?

Richmont is in a strong position to benefit from higher gold prices because of its strong financial health, the quality of its assets, and the considerable potential exploration upside it possesses. For these reasons, it is easy to see its shares appreciating considerably in value over coming months, particularly with gold expected to rise further.

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