



## Why Northern Dynasty Minerals Ltd. Is a Ticking Time Bomb for Investors

### Description

Here at the Motley Fool, we strongly believe in and advocate the idea of buying and holding. Investing, after all, ideally means that you're willing to buy and hold your stocks for long periods of time in anticipation of making a profit. The [power of compounding](#) wouldn't work in a short time frame.

That, however, by no means suggests that you should buy only companies that are profitable. Companies in early development stages that are yet to break even could turn out to be multi-baggers if they're in a disruptive industry, own strong technologies, or are about to enter a growth phase.

That may explain why mining stock **Northern Dynasty Minerals Ltd.** ([TSX:NDM](#))(NYSE:NAK) has caught the attention of many, especially after its recent "deal" with the U.S. Environmental Protection Agency (EPA). The story is that the company has been at loggerheads with the EPA ever since the latter blocked development of Northern Dynasty's key mine, Pebble in Alaska, in 2014. That same year, mining giant **Rio Tinto plc** ([NYSE:RIO](#)) had pulled out of the project by "gifting" away its 19.1% stake in Northern Dynasty.

With the EPA now settling the long-pending dispute, Northern Dynasty can finally propose a development plan for Pebble. It's certainly a major milestone for Northern Dynasty, so what's not to like? There are two negative factors, and mind you, they're really big factors.

1. Pebble is the company's *only* mine.

As the company itself states, it is "a mineral exploration company focused on the exploration and advancement towards feasibility, permitting, and ultimately development of the Pebble Project, a copper-gold-molybdenum mineral project located in southwest Alaska."

In other words, Northern Dynasty has no running operations, so there's no question of revenue or earnings.

2. Is Pebble economically viable? No one knows.

Again, from the company's annual report: "The Group is in the process of exploring and developing the

Pebble Project and has not yet determined whether the Pebble Project contains mineral reserves that are economically recoverable.” It further states that “extensive additional work is required before Northern Dynasty or the Pebble Partnership can ascertain if any mineralization may be economic and hence constitute ‘ore’.”

Why then would the market even have interest in a such company, so much so that the stock still commands a market capitalization of above \$600 million, despite trading at one-tenth its 2011 value? Perhaps because Pebble is touted to be among the world’s largest unexplored gold deposits with Northern Dynasty’s own measured and indicated resource estimates standing at a whopping 6.44 billion tonnes, including:

- Copper: 57 billion pounds
- Gold: 70 million ounces
- Molybdenum: 3.4 billion pounds
- Silver: 344 million ounces.

But then, these are exactly just estimates. Northern Dynasty issues a clear warning in its annual report, cautioning investors “not to assume that all or any part of mineral deposits in these categories will ever be converted into reserves.” Granted, this risk is inherent in any mining business, but it’s more than just a risk in Northern Dynasty’s case considering that Pebble is its only mine.

Even now, it’ll take Northern Dynasty three to four years to get the necessary permits, provided it can clear the hurdles poised by intense local and environmentalist opposition, among others. Thereafter, it’ll need several years to finance and build the mine, provided it can secure funding and get partners on board. In short, your guess about whether or not Pebble will ever see the light of the day and will be profitable is as good as mine.

If you have to invest in a mining stock under \$3, consider **McEwen Mining Inc.** ([TSX:MUX](#))([NYSE:MUX](#)). Better yet, shell out a bit more and go for **Yamana Gold Inc.** ([TSX:YRI](#))([NYSE:AUY](#)), which is all set to bring its seventh mine Cerro Moro online next year and projects its gold production to jump 16% by 2019. Yamana also pays a dividend, and is [one of the cheapest gold stocks](#) today. Any which way, you’d be better off staying away from Northern Dynasty.

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1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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2. NYSE:MUX (McEwen Mining Inc.)
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