1 Junior Gold Miner for Under $5 That Is Set to Soar

Description

Investing in junior gold miners can be a risky business. Not only do they lack the financial strength of larger gold miners, but typically their assets do not possess the operational maturity to generate consistent cash flows and profitability. In many cases those assets are in the process of being developed in order to realize their full potential.

While this typically only makes them suitable investments for the most risk-tolerant investors, they offer far greater potential upside than larger gold miners.

One junior gold miner and explorer that ticks all of the right boxes is **Continental Gold Inc.** (TSX:CNL). Despite gold weakening over the last year to be down by almost 7%, Continental Gold's stock has risen by 3%. This can be explained by the quality of its core asset, the Buritica gold deposit located in northwestern Colombia.

Now what?

The Buritica deposit is located near Medellin, Colombia's second-largest city. It has been estimated to have recoverable gold reserves of 3.5 million ounces at an average grade of 8.4 grams per tonne, making it one of the highest-grade projects under development at this time globally.

The mine is fully permitted, and, more importantly, financing for the project has been completed. It now possesses the backing of one of the gold mining industry's largest players **Newmont Mining Corp.** (NYSE:NEM).

In May of this year, Newmont made a US$109 million investment in Continental Gold which, upon closing, gave it a 20% cornerstone stake in the junior miner. The proceeds of that investment, along with an additional US$250 million credit facility provided by Red Kite Mine Finance, provide the junior miner with sufficient funds to complete development of the asset.

According to Continental Gold's plans, construction of the mine is expected to commence during the second half of 2017 and production in 2020.

The attractive nature of the Buritica project coupled with Newmont taking such a large stake means that the senior miner could certainly be positioning itself to acquire Continental Gold once the mine is complete and production has commenced. Such a deal would only occur at a substantial premium to its current stock price.

You see, after reviewing the numbers used by Continental Gold to value the project, it becomes clear that it is heavily undervalued. Using an assumed gold price of US$1,200 per ounce, and after deducting the capital required to bring it production, debt, and ongoing operating costs, Continental Gold is worth roughly $6 per share, or 76% higher than its market price.

That highlights the potential it holds for investors.

Nonetheless, that does not come without significant risk. The asset is unproven, and construction of the mine has yet to commence. There are also a range of risks associated with mine construction that could delay commissioning or cause pre-production costs to increase.

While Colombia may not be the high-risk jurisdiction that many investors believe it to be, the Andean nation is still a riskier location for mining operations than the U.S. or Canada.

So what?

Continental Gold is certainly an attractive play on higher gold prices. The quality of its flagship asset, along with the backing of industry giant Newmont, reduces much of the risk typically associated with junior gold miners. While there are still considerable risks associated with the development of the Buritica mine, this is one junior that should soar as the price of gold rises, particularly once the mine is complete and production commences.

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