



## 1 Gold Miner for Less Than \$5 That Could Double

### Description

Despite a global [economic upswing](#), which has been a powerful tailwind for stocks, gold remains firm and is trading well above the psychologically important US\$1,300-per-ounce mark. There are signs that gold will remain firm over the course of 2018, because of a range of economic and [geopolitical risks](#) that could trigger the next market correction. One of the best means of earning outsized returns from higher gold is by investing in small gold-mining stocks. A gold miner that stands out as being attractively valued after being roughly handled by the market — down by almost 75% over the last year — is **Klondex Mines Ltd.** (TSX:KDX)(NYSE:KLDX).

### Now what?

Klondex owns and operates a portfolio of gold mines in Canada and the U.S., including the Fire Creek mine in Nevada, which is ranked as the world's highest-quality operational underground gold mine. It has proven gold reserves of 118,000 ounces with an average grade of 37.34 grams of gold per tonne of ore. Klondex's total proven and probable gold reserves across its four mines come to 667,000 ounces.

The Fire Creek mine is located near **Barrick Gold Corp.'s** ([TSX:ABX](#))(NYSE:ABX) underground Cortez mine and open pit Goldstrike mine, which are responsible for 40% of its production and are among some of its lowest-cost operations.

Klondex's focus on expanding production and reducing costs is delivering considerable dividends for the company. It reported record 2017 gold production of 189,456 ounces, which was a 17% increase over 2016.

Nevertheless, this was below the miner's revised guidance and can be attributed to the company's decision to defer the processing of ore from its Hollister mine to allow it to optimize operations at the Midas Mill. That saw it finish 2017 with a stockpile of 15,000 gold ounces, which can be sold over the course of 2018, further boosting earnings.

An aspect of some concern for investors when it comes to Klondex's operations is the miner's extremely high costs for each gold ounce sold. For the third quarter 2017, it reported all-in costs of

US\$1,704 per ounce, which was well above the average spot price for the quarter. It is also significantly higher than many of its peers, including Barrick, which reported full year 2017 all-in costs of US\$860 per ounce.

While the headline number is worrying, what investors need to understand is that all-in costs not only reflect production costs, but include expenses related to mine development — growth projects to expand production and sales.

In Klondex's case, development expenses can be high, because its operations are comprised of underground mines that are focused on extracting gold from narrow mineralized veins. The cost of production is better reflected by a miner's cash costs. For the third quarter, Klondex's cash costs came to US\$809 per gold ounce produced, which is well below the gold price and comparable to its peers.

Klondex's operational performance will continue to improve during 2018. The miner has projected that gold production will grow by up to 7%, while cash costs will fall to US\$675-725 per ounce, and, importantly, all-in costs are projected to drop to somewhere between US\$940 and US\$990 per ounce. In an operating environment where gold remains firm, this will give Klondex's earnings as well as profitability a tremendous boost.

### **So what?**

The miner's ability to reduce costs and expand gold production makes it an appealing investment. Each of those factors coupled with its stock having plummeted sharply in recent months, despite higher gold, means that Klondex is poised to rally significantly and could easily double in value.

Nonetheless, this is not an investment without risk. The high costs associated with Klondex's operations as well as its relatively small portfolio of mines mean that, unlike Barrick, even relatively minor production outages can have a marked impact on its gold output. This would significantly reduce Klondex's bottom line.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

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