



1 Junior Gold Miner That Offers Considerable Upside

Description

Note: This article has been edited to correct Newmont Mining Corporation to Newcrest Mining Limited.

Gold firmed in recent days, as markets dipped and fears of a correction grew. The yellow metal is widely regarded as a safe-haven investment, which [retains its value](#) during times of economic and geopolitical crisis. Rising tensions in the Middle East and the increasingly erratic nature of the Trump administration is creating considerable apprehension in markets. This makes now the time for investors to bolster their exposure to gold. One attractive opportunity capable of delivering outsized returns is junior gold miner **Lundin Gold Inc.** ([TSX:LUG](#)).

Now what?

While junior gold miners can be a risky investment primarily because of the untested nature of their operations, they also offer considerable potential upside. In the case of Lundin Gold, the quality of its Fruta del Norte project, along with astute experienced management and the financial backing of one of the world's largest gold miners, goes a long way to mitigating this risk.

You see, the Fruta del Norte ore body project located in Ecuador is rated as one of the highest-grade gold-mining projects under development globally. It has an impressive grade of 9.7 grams of gold per tonne of ore for its considerable proven and probable gold reserves, totaling over nine million ounces.

This impressive ore grade will translate into low operating expenses at the mine.

Lundin Gold has forecast that all-in sustaining costs will come to US\$609 per ounce, which is significantly lower than many of its peers and among the lowest in the industry. Those low costs underscore the profitability of the mine once its commences operations, particularly in an environment where gold is trading at over US\$1,300 per ounce.

The project is fully permitted, and financing is essentially complete. Lundin Gold completed a US\$400 million private placement late last month and secured a US\$300 million senior debt facility in January 2018. That, along with US\$35 million in cash at the end of 2017, leaves Lundin Gold well positioned to continue constructing the mine and supporting infrastructure.

The world's second-largest gold miner, **Newcrest Mining Limited** ([ASX:NCM](#)), has expressed considerable confidence in the project, investing heavily to own 27% of Lundin Gold. Newcrest has also agreed to enter an exploration joint venture with the junior miner; if it invests US\$20 million, it will receive up to a 50% interest in the exploration venture.

There is tremendous exploration upside available at Fruta del Norte. The ore body is located in a major mineralized trend, and its reserves represent only 67% of the assessed indicated resources.

Development of the mine remains on track with first gold production expected in late 2019. Once stable commercial production is established, it is anticipated that the mine will produce 300,000 ounces of gold over the first 11 years of the mine's life. Because of its high ore grade and considerable gold reserves, the Fruta del Norte mine is forecast to be one of the top-tier gold producers once in commercial production.

What many investors fail to appreciate is that the degree of geopolitical risk associated with Ecuador has fallen significantly [since 2015](#), when the Andean nation embarked on a strategy focused on attracting foreign investment in its nascent mining industry.

So what?

Investing in a junior gold miner that is developing an ore body and associated mine is a risky undertaking.

Nonetheless, much of the risk associated with Lundin Gold is mitigated by the quality of the Fruta del Norte asset and the substantial investment made by Newcrest. There is every likelihood that once commercial production commences, Lundin Gold's stock will soar.

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Author

mattsmith

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