An Attractively Valued Gold-Mining Junior Offers Considerable Upside

Description

While junior gold miners can be high-risk investments, they also offer the opportunity for investors to earn outsized returns. The secret to investing in junior miners is to identify those with quality assets and astute, experienced management teams that are capable developing mines and bringing them to production. One such company that offers investors considerable potential upside is Canadian junior gold miner **Continental Gold Inc.** (TSX:CNL).

Now what?

Continental Gold is focused on developing the Buritica gold deposit located in Colombia, near the Andean nation’s second-largest city Medellin. The ore body has been rated as one of the highest grade and largest undeveloped gold deposits in the world with gold reserves of 3.7 million ounces and an impressive average grade of 8.4 grams of gold per tonne of ore. The mine is fully permitted, and construction is underway with first production scheduled for 2020.

Because of the high ore grade, the mine is projected to have low all-in sustaining costs of US$495 per ounce produced, underscoring just how profitable it will be, particularly with gold trading at over US$1,300 per ounce.

Those high grades are evidenced from sampling completed by Continental Gold at the project in December 2017. Ore extracted from trial mining stopes contained 49% more gold and 62% more silver than initially estimated. That not only bodes well for the mine to meet forecast targets when production commences but also emphasizes the considerable exploration upside that exists at the property.

While the Buritica project would typically be viewed as high risk, it has been given a vote of confidence by the world’s second-largest gold miner **Newmont Mining Corporation** (NYSE:NEM). Newmont bought a 20% stake in Continental Gold for US$109 million in May 2017.

The fact that the project is fully permitted and financed further reduces the risks associated with investing in Continental Gold.

Geopolitical risk is another aspect that is an important consideration when investing in a miner operating outside Canada. In the case of Colombia, that risk is significantly lower than many pundits believe. The government has a long history of being business friendly, as it seeks to attract foreign investment, while the demobilization of the largest insurgent group, the FARC, has led to a substantial improvement in the security situation.

That means the nearby 48,402-hectare Berlin property, which once contained an operational gold mine that produced 400,000-700,000 gold ounces, can now be explored further bolstering Continental Gold's exploration upside.

The outlook for Continental Gold and its ability to complete development of the Buritica mine is extremely positive. It finished 2017 with US$91 million in cash, US$69 million in working capital and undrawn credit of US$225 million.

So what?

Continental Gold is not a risk-free or low-risk investment, but every indication is that the company, with the backing of Newmont, is capable of successfully executing the Buritica project. When that is complete and production comes online, there is every likelihood that Continental Gold's shares will soar, delivering outsized returns for investors.

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Date
2025/07/28

Date Created
2018/04/10
Author
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