



1 Attractively Valued Junior Gold Miner Poised to Soar

Description

Gold continues to gyrate wildly, as [geopolitical crises](#) and economic risks weigh on the outlook for financial markets. After dipping sharply in recent days, the lustrous yellow metal has bounced back, rallying by just over US\$10 per ounce since the start of May 2018 to be trading at US\$1,313 an ounce. This is good news for beaten-down junior gold miner **Pretium Resources Inc.** (TSX:PVG)(NYSE:PVG), which has seen its value plummet by a massive 41% since the start of 2018.

Now what?

Pretium owns and operates the Brucejack gold mine located in British Columbia, which has been estimated to have reserves of eight million gold ounces with an average grade of 16 grams of gold per tonne of ore. The mine was long touted by Pretium to be one of the highest-quality gold projects under development globally, but since commencing production, it has failed to deliver the forecast levels of production. It is this which has weighed heavily on Pretium's market value.

For the fourth quarter 2017, gold production deteriorated by 15% quarter over quarter, and the reported head grade of 8.2 grams of gold per tonne of ore mined was roughly half of the grade stated in the mine's feasibility study. Those results have significantly disappointed the market, sparking fears that the Brucejack mine is not the high-quality operation that's expected.

Nonetheless, the Pretium has moved quickly to remedy the situation. The decline in fourth-quarter production can be attributed to longer-than-expected downtime for equipment and other delays associated with executing Pretium's mining plan.

As a result, the company has added a third drill and is working on increasing the number of stopes available to be mined, so there are 10-12 stopes available to be mined by the end of 2018 — double the number required. Over the course of the first half of 2018, as these improvements are completed, they should address the issues experienced during the fourth quarter 2017 and lead to higher gold production. Pretium also expects these improvements to boost the head grades of the gold mined.

There is also still a considerable amount of work to be completed before the Brucejack mine is ready to reach full commercial production, known as steady-state production. This means that the market has,

in all likelihood, overreacted to the mine's poor fourth-quarter performance.

In fact, Pretium doesn't expect steady state production to be achieved until late 2018, but when the mine reaches that level of maturity, it should deliver the ore grades and production promised in the feasibility study. When that occurs, Pretium's earnings will receive a healthy bump, particularly because of the [positive outlook](#) for gold, which should see it remain trading at above US\$1,300 per ounce for the remainder of 2018.

Even before steady-state production is achieved, Pretium has forecast gold production of 150,000-200,000 ounces for the first half of 2018. The lower end of that forecast it is equivalent to the mine's gold production for the second half of 2017, while at the upper end it is 31% greater. If Pretium can achieve the upper end of that target, its earnings will expand significantly, which should trigger a substantial rally in the miner's shares.

So what?

Investing in a junior gold miner is fraught with risk, and the issues experienced by Pretium at its Brucejack mine over the second half of 2017 illustrate what can go wrong. The miner is working hard to improve its operations, which should see gold production, and hence earnings, grow substantially. Because Pretium's stock has tumbled sharply since the poor fourth-quarter results were announced, it appears attractively valued, creating an opportunity for risk-tolerant investors to bet on higher gold and the successful implementation of Pretium's improvements at the mine.

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