



1 High-Quality Gold Mining Junior That Offers Considerable Upside

Description

Gold's latest pullback, which sees it down by just over 1% for the year to date, has created an opportunity for investors despite a firmer U.S. dollar and increased global economic growth, thereby signaling choppy times ahead for the precious metal. This is because [geopolitical and economic](#) risks across the globe remain high. It would only take one frightening incident to push gold higher yet again. Among the most attractive means of betting on [higher gold](#) is by investing in junior gold miner **Lundin Gold Inc.** ([TSX:LUG](#)).

Now what?

Lundin Gold is developing the Fruta del Norte gold deposit in southern Ecuador, which has been assessed as one of the largest high-grade ore bodies under development globally. While its considerable gold reserves totalling 4.9 million ounces and exceptional ore grade of 9.16 grams of gold per ton of ore make it a very appealing stock, it is Lundin Gold's ability to secure financing and permits that makes it a compelling investment. By the end of the first quarter 2018, overall engineering at the project was 26% complete and construction was 16% finished.

More important, during the quarter, Lundin Gold secured a US\$350 million project finance facility from a syndicate of lenders and closed a US\$400 million private equity placement. That deal saw it end the first quarter with US\$476 million in cash as well as working capital of US\$460 million.

Notably, the project has the backing of Australian senior gold miner **Newcrest Mining Ltd.** ([ASX:NCM](#)), which after the private placement owns 27.1% of Lundin Gold's shares. Newcrest also entered into a joint venture deal with Lundin Gold for the Fruta del Norte property. The senior gold miner can earn up to a 50% interest by spending US\$20 million over the next five years with a commitment to invest US\$4 million in the next two years.

This commitment underscores the tremendous exploration upside associated with the property, which, with current assessed gold reserves representing 67% of indicated resources, means that its gold reserves should grow over time.

First gold from Fruta del Norte is forecast for 2019, and commercial production is expected to be

achieved in 2020, ramping to full production by 2022. The deposit's high ore grade means that the operational mine will have remarkably low all-in sustaining costs (AISCs), which have been estimated at US\$609 per ounce of gold produced. That is far lower than more mature mines and emphasizes just how profitable the mine will be for Lundin Gold once full commercial production commences.

In fact, with an enterprise value of US\$263 per ounce of gold reserves, Lundin Gold appears attractively valued in comparison to many of its peers. That is further emphasized by the mine being assessed to have an after-tax payback period of a mere four years and an internal rate of return in excess of 16% at a forecast price for gold of US\$1,250 per ounce.

So what?

Lundin Gold is very attractively valued because of the high quality fully permitted and financed Furta del Norte project. There is every sign that using an assumed gold price of US\$1,250 per ounce, it could almost double in value once commercial production commences and meets market expectations. It is this considerable potential upside and relatively low risk compared to other projects under development that makes it an extremely appealing play on higher gold.

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