



## Lundin Gold Inc. (TSX:LUG) Is Poised to Soar Once Production Commences

### Description

While a steadily improving global economic outlook and better-than-expected growth have taken the lustre off gold, causing the yellow metal to plummet below the psychologically important US\$1,300 per ounce mark, there are [plenty of reasons](#) to invest in the metal. Key among them are the emerging threats to the global economy and financial stability, including a potential trade war between the U.S. and China, fears of a financial crisis in Italy, and rising geopolitical tensions in the Middle East.

While senior gold miners are a less-risky investment than junior miners because of their stronger balance sheets and more mature operations, it is the smaller junior gold miners that offer the most upside. One that stands out for all the right reasons is **Lundin Gold Inc. (TSX:LUG)**, which has plummeted by 10% over the last month, creating a handy entry point for risk-tolerant investors.

### Now what?

Lundin Gold is developing the Fruta del Norte gold project located in southern Ecuador. While in the past, Ecuador has been a notoriously difficult country for foreign miners to operate in, the government from 2015 onward has embarked on an aggressive strategy of attracting foreign mining investment.

This occurred because of the dire fiscal straights that Quito found itself in after oil prices weakened sharply and crude fell into a protracted slump that cut government and much-needed export revenue. As a result, the government implemented a range of policies to attract foreign miners, including tax concessions and the elimination of tariffs on imports. That has seen Ecuador emerge as a major mining jurisdiction that is attracting considerable attention from major miners.

The Fruta del Norte ore body is ranked as one of the largest and highest-grade gold deposits under development globally. The exceptional grade of 9.2 grams of gold per tonne of ore means that projected operating costs for the mine upon commencing operations are expected to be quite low.

All-in sustaining costs (AISCs) are forecast to be US\$609 per ounce, which is well below the industry average. These are less than other similar or higher-quality projects, such as **Pretium Resources Inc.'s** (TSX:PVG)(NYSE:PVG) Brucejack mine, which — with a recorded first quarter 2018 ore grade of 9.1 g/t — reported ASICs of US\$1,009 per ounce sold.

Importantly, the mine is not only fully permitted by the Ecuadorean government, but its development is fully funded, having [attracted major investors](#), including senior gold miner **Newcrest Mining Ltd.**, which has invested US\$250 million. That should give investors a sense of comfort, because it has reduced much of the execution risk that is typically associated with a project of this scale.

By mid-April, the mine had exceeded more than one kilometre of underground development and remains on track to commence commercial production during the second quarter 2020 with first gold expected later this year. First gold is an important milestone, because it allows Lundin Gold to test ore grades and various aspects of the mine, while generating income that can be directed back to its balance sheet or used to fund mine construction.

The ore body has considerable exploration upside because it has indicated and inferred resources of 14 million gold ounces in addition to the Fruta del Norte's gold reserves of just over eight million ounces. That potential is bolstered by the joint venture signed with Newcrest, which has committed to exploration expenditures of US\$20 million over a five-year period. Such solid exploration upside will, over time, allow Lundin Gold to expand its gold reserves and the mine's life beyond the 15 years originally estimated.

### So what?

Once the mine commences commercial production and proves that it is capable of sustaining production at the forecast ore grades, its price will spike. Any increase in ore grades, reserve additions, gold production, or gold prices will boost Lundin Gold's share price further. For the reasons discussed, it is likely that Lundin Gold could easily double in value, but it is not a risk-free investment. Mine developments have far more moving parts and a greater degree of risk than operational mature mines, and that means Lundin Gold is not for the faint-hearted investor.

### CATEGORY

1. Investing
2. Metals and Mining Stocks

### POST TAG

1. Editor's Choice

### TICKERS GLOBAL

1. TSX:LUG (Lundin Gold Inc.)

### PARTNER-FEEDS

1. Msn
2. Newscred

3. Sharewise
4. Yahoo CA

### Category

1. Investing
2. Metals and Mining Stocks

### Tags

1. Editor's Choice

### Date

2025/08/17

### Date Created

2018/06/22

### Author

mattdsmith

default watermark

default watermark