



Why Is Pretium Resources Inc. (TSX:PVG) Up by 12% Over the Last Month?

Description

It has been a [rollercoaster ride](#) for investors in gold mining junior **Pretium Resources Inc.** (TSX:PVG)(NYSE:PVG) over the last year. After attracting considerable attention because of the quality of its Brucejack mining project located in Northwestern British Columbia, its share price has gyrated wildly as the operational performance of the mine failed to meet expectations. Its shares plunged sharply after the mine on commencing operations failed to meet market expectations regarding ore quality and gold output.

However, over the last two weeks, its shares have rallied strongly to see Pretium up by almost 12% for the last month despite the price of gold deteriorating sharply and sliding well below the psychologically important US\$1,300 per ounce mark. This gravity-defying spectacle indicates that the market's perception of risk related to Pretium's operations was overbaked and that there could be considerably more upside ahead.

Now what?

The Brucejack mine was assessed to have initial ore grade of 16.1 grams of gold per ton of ore for the first 10 years of operation and an average of 14.1 g/t over the mine's 18-year life.

Nonetheless, after a solid start to operations at Brucejack, when the third quarter 2017 gold production came to 82,203 ounces with a head grade of 10.5 g/t, the wheels came off and the next two quarters saw sharp decline in performance. For the fourth quarter 2017, production fell to 70,281 gold ounces, which was a worrying 15% lower quarter over quarter because of a marked deterioration in the head grade mined, which dropped to 8.2 g/t.

As a result of declining production and ore quality, operational expenses grew significantly to see all-in sustaining costs AISCs rise to US\$893 per ounce of gold sold. This was significantly higher than the US\$788 per ounce reported for the third quarter when management flagged that costs would decrease.

The disappointing performance of what was touted as one of the highest-grade mines to enter commercial production in recent years hit Pretium's stock hard.

Pretium has nevertheless implemented a plan to improve ore grades, reduce costs, and bolster production. For the first quarter 2018, gold production grew to 75,689 ounces with a head grade of 9.1 grams of gold per tonne of ore.

That significant improvement in the mine's operational performance coupled with the announcement of the successful completion of exploration drilling is responsible for Pretium's rally despite gold falling in value. Those exploration results are important because they indicate that Brucejack-style mineralization extends to 1,000 metres east of the mine, thereby underscoring the considerable exploration upside that exists.

It appears that the market's perception of risk was overbaked, and investors are starting to realize this. When Brucejack successfully reaches steady-state production and Pretium is able to report that AISC's inline with guidance while achieving stable production for a sustained period, its share price should rally further.

Several [external factors](#) will likely give its stock a boost, including signs that gold is poised to move higher and growing fears of a trade war between the U.S. and China are rattling financial markets. The emerging economic and political crisis in Italy could well challenge the stability of the euro and the framework, which supports the existence of the European Union (EU). If the EU were to teeter close to collapse, it would send shockwaves through global financial markets and give gold a solid boost.

So what?

Despite the hiccups associated with ramping up commercial production at the Brucejack mine, Pretium appears attractively priced, most notably since the emergence of evidence that ore grades and production volumes are improving. In conjunction with the sharp sell-off of Pretium's stock in late 2017 and earlier this year, this has created an opportunity for risk-tolerant investors seeking to bet on [higher gold](#).

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