



Is This the Best Gold Mining Junior to Play Higher Gold?

Description

Gold has weakened sharply in recent weeks because of the growing optimism surrounding the world economy. There are rising concerns, however, that Trump's trade policies could ignite a [global trade war](#), which would cause economic growth to weaken. The impact of this would be exacerbated by higher crude and fears of another crisis for the euro because of Italy's deteriorating economy.

In such an environment, many investors are hedging against growing uncertainty by [investing in gold](#). While the senior miners offer a less-risky levered play on gold, it is junior miners that offer the most upside. One that appears particularly attractive is **Continental Gold Inc.** (TSX:CNL).

Now what?

Continental Gold is in the process of developing the Buritica ore body in northwestern Colombia located near the city of Medellin. It is ranked as one of the largest and highest-grade gold deposits globally and has been assessed to have reserves of 3.7 million ounces of gold and 10.7 million of silver. The gold reserves have a grade of 8.4 grams of metal per tonne of ore, which is quite high compared to many other projects.

The combination of high ore grades coupled with low local operating costs sees Continental Gold forecasting all-in sustaining costs of US\$492 for every gold ounce produced and sold. Those costs are among the lowest in the industry for an underground mine, underscoring just how profitable Continental Gold's operations will be once the mine commences operations.

The mine is 31% complete and forecast to commence production in 2020 with a 14-year mine life and an average output of 282,000 ounces of gold as well as 494,000 ounces of silver annually for the first five years.

While investing in a mining junior is considered quite risky, the Buritica project has attracted the interest of senior gold miner **Newmont Mining Corp.** ([NYSE:NEM](#)), which invested US\$109 million for a 19.9% stake in Continental. The financial backing of Newmont helps to mitigate much of the risk associated with the project.

Continental has a solid balance sheet with total cash and available liquidity of US\$262 million. This — along with its existing financing package and Newmont backstopping the project through equity rights — means there is little risk of the company lacking sufficient capital to complete the project.

The improving security situation in Colombia — along with conservative business-friendly candidate Ivan Duque winning the recent presidential election — has reduced most of the geopolitical risk associated with the Buritica project. It also has allowed Continental to consider exploring its other Colombian properties, including the Berlin acreage, where it has commenced reconnaissance activities, and the Dojura project, where it is gauging community acceptance of drilling as well as other exploration activities. Those other assets, along with the high quality of the Buritica ore body, endow Continental with considerable long-term exploration upside.

So what?

Continental is an attractive, relatively low-risk means of gaining exposure to gold, particularly when the quality of its flagship asset the Buritica project is accounted for. On successfully commencing commercial production, Continental's stock could easily double. Many analysts have, in fact, assigned price targets of between \$5 to \$8 per share, highlighting the considerable upside available.

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