



## Is This Small-Cap Miner the Best Way to Play Higher Gold?

### Description

Gold has declined significantly in recent weeks to be trading at around its lowest level since mid-2017. The yellow metal has declined because of a firmer U.S. dollar and stronger than expected global economic growth. Nonetheless, there's a range of emerging catalysts that could buoy the price of gold, the key one being the escalating [trade war](#) between the U.S. and China.

And these factors, along with heightened risk of another economic crisis in the European Union as well as an array of geopolitical fissures, could support higher gold in the coming months. An increasingly attractive means of playing higher gold is small-cap miner **Dundee Precious Metals Inc.** ([TSX:DPM](#)).

### Now what?

Dundee owns a globally diversified portfolio of precious metals properties that span the length and breadth of the development lifecycle from early stage exploration to operational mines. The company's flagship asset is the Chelopech underground mine in Bulgaria, which has reserves of 1.9 million gold ounces with an average grade of 3.13 grams of gold per tonne of ore. When the Krumovgrad open pit mine in Bulgaria, which is currently being developed and scheduled for commissioning at the end of 2018, is included, Dundee has total gold reserves of 2.7 million ounces.

One pleasing aspect of Dundee's operations is their low costs. For the first quarter 2018, the miner reported all-in sustaining costs of US\$696 per ounce produced, which was not only 2% lower than a year earlier, but also places Dundee among some of the lowest miners in the industry. That underscores just how profitable Dundee is amid an operating environment in which gold is trading at over US\$1,200 an ounce.

Notably, Dundee has been able to steadily grow production reporting record 2017 gold production at Chelopech of 197,684 ounces, which was in excess of its annual guidance. For the first quarter, 2018 gold output was 57,331 ounces — a remarkable 24% increase year over year, thereby putting Dundee on track to achieve its 2018 production guidance of 165,000 to 195,000 gold ounces.

Production at Chelopech should continue to grow as costs fall, as Dundee is focused on digitising the mine and implementing automated mine processes, which should drive greater efficiencies and reduce

maintenance downtime. When the Krumovgrad mine comes online, it will add a further 85,700 ounces of gold to Dundee's annual production, thereby giving its cash flow and earnings a solid lift.

Dundee expects that its annual gold production will eventually grow to over 350,000 ounces with average all-in sustaining costs of US\$609 per ounce produced. That will make it one of the lowest cost producers in the gold mining industry, thereby underscoring the miner's profitability, particularly in an operating environment that sees gold trading at over US\$1,200 an ounce.

Dundee also owns and operates the Tsumeb copper smelter in Namibia, which is one of the few smelters globally capable of treating complex copper concentrates. The miner completed a significant investment in upgrading the smelter in 2016, which has seen a marked reduction in capital expenditures and ramp up in processing capacity. Tsumeb's production of blister copper is expected to grow by up to 69% by 2022, which will likely further boost Dundee's earnings.

### **So what?**

Dundee is shaping up as an attractive low cost intermediate gold miner that's on track to grow production and boost profitability at its flagship Chelopech mine in Bulgaria. The miner's appeal as an investment is further enhanced by its solid balance sheet and considerable liquidity. Dundee ended the first quarter with US\$15 million in cash, US\$37 million of investments, and US\$33 million of debt, roughly a third of its adjusted 2017 EBITDA. When [gold rebounds](#) because of growing fears of a trade war as well as a range of other economic and geopolitical fissures, Dundee's stock will probably rally.

### **CATEGORY**

1. Investing
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### **TICKERS GLOBAL**

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mattsmith

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