Is This Newly Formed Gold Miner an Attractive Investment?

Description

It is rare that investors have the opportunity to invest in an intermediate gold producer during its build-up phase, but one such opportunity is **Leagold Mining** (TSX:LMC). The miner commenced operations in 2016 and is focused on becoming a leading intermediate Latin American gold producer. While gold has weakened in recent weeks, as concerns over economic and geopolitical risks, including a trade war with China, wane, Leagold is an attractive means of boosting exposure to the precious metal.

Now what?

Leagold, which was formed by billionaire Frank Giustra and CEO Neal Woodyer, has been snapping up assets in Latin America since completing a $35 million equity raising in August 2016. After that buying spree, including the latest deal, where it acquired **Brio Gold Inc.**, the company owns four operating mines and two development projects.

Leagold's flagship asset is the Los Filos mine complex in Mexico, which has open pit and underground operations. The miner is engaged in expanding the Bermejal underground mine at the site. That development, when complete, is expected to boost annual production from Los Filos to around 350,000 gold ounces annually with all-in sustaining costs (AISCs) of roughly US$800 per ounce produced.

Leagold also owns three Brazilian mines, which were acquired as part of the Brio deal. First, there is the Riacho dos Machados open cut mine, which is forecast to produce 75,000-85,000 ounces of gold for 2018 and report AISCs of US$830-860 an ounce. Next is the Fazenda Brasileiro underground operation, which is expected to produce up to 75,000 gold ounces during 2018 at AISCs of US$960-990 per ounce. Finally, there is Pilar underground mine, which is projected to produce 65,000-75,000 ounces for 2018 with AISCs of US$1,060-1,090 an ounce.

All three mines possess considerable potential and exploration upside, which should see their gold reserves and production grow, as Leagold invests in improving operations, exploration, as well as development drilling and implementing efficiencies.

The combined entity is forecast to have annual gold production of up to 475,000 gold ounces in 2018 with the potential to expand that to 700,000 ounces by 2020.

Management has predicted that AISCs for 2018 will average around US$930 per ounce produced, and that will fall to around US$850 by 2020. This highlights the profitability of Leagold's assets, especially if gold bounces back because of existing economic or geopolitical fissures that have the potential to escalate into full-blown crises.

Aside from the Los Filos Bermejal underground expansion, Leagold also intends to continue developing the Santa Luz project in Brazil, which it acquired as part of the friendly Brio buyout. That project has assessed gold reserves of 1.2 million ounces, and according to the January 2018 technical report, it is economic to develop using an assumed gold price of US$1,300 per ounce.

As a result of the Brio deal, Leagold now has the backing of intermediate miner **Yamana Gold Inc.**

You see, Yamana held a majority 54% shareholding in Brio and, as a result, received 58,115,953 Leagold shares, giving it a 22% equity interest in the combined entity. On completion of the deal, Yamana's chairman and CEO Peter Marrone accepted Leagold's invitation to join its board of directors. These factors certainly make it in Yamana's interest to assist Leagold in succeeding in becoming a leading Latin American gold producer.

So what?

Leagold appears well positioned to grow reserves and production primarily because of the Los Filos underground expansion. When commercial production of that project commences, and Leagold demonstrates that company-wide costs are falling, its stock will appreciate, particularly if gold rebounds.

Nonetheless, miners like Leagold can be risky investments because of the unproven nature of their operations. Those risks, however, are mitigated by senior management's considerable and proven experience, along with the quality of the assets it has acquired, higher gold, and the support of Yamana. When coupled with the miner having lost 21% for the year to date compared to 8% for gold, there is an opportunity for risk-tolerant investors seeking to bolster their exposure to the yellow metal.

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