



## 1 Junior Gold Miner That Could Easily Triple

### Description

Gold has surged in recent days to be up trading at over US\$1,235 per ounce, but despite the latest rally, it is still down by almost 3% year to date. There is every sign that the yellow metal could firm further because of growing fears of a global economic slowdown, rising geopolitical risk, and fears of a crisis in emerging markets. Firmer gold has helped to boost the price of gold miners, with the **VanEck Gold Miners ETF** gaining 2% over the last month.

While senior gold miners such as **Barrick Gold** attract the most attention from investors, it is the junior miners that offer the potential for investors to earn outsized returns. A particularly appealing gold mining junior is **Lundin Gold** ([TSX:LUG](#)), which offers considerable potential upside.

### High-quality flagship asset

Lundin Gold is focused developing the Fruta del Norte gold deposit in the impoverished Latin American nation of Ecuador. The ore body has been rated as being among one of the largest gold discoveries in recent years and is comparable in size and quality to **Continental Gold's** Buritica deposit in neighbouring Colombia.

This property holds reserves of just over five million gold ounces at an average grade of 8.74 grams of gold per tonne of ore (g/t). That is an impressive grade and highlights that considerable potential profitability of the mine once it commences commercial operations.

### Development on schedule

The project is fully financed, while underground development has reached 3.8 km and is expected to reach the ore body in the first quarter of 2019. Overall mine construction is 34% complete as well as being on budget and schedule.

The first gold pour is slated for the end of 2019 with commercial steady state production expected to be achieved by mid-2020. It is estimated that the mine will produce 330,000 ounces of gold annually on

average for the first 13 years of operation.

Because of the high ore grade, it is anticipated that the mine will have all-in sustaining costs (AISCs) of US\$583 per gold ounce produced, which are among some of the lowest in the industry and underscore the operations profitability. These AISCs were reduced to this amount earlier this year from an earlier estimate of US\$609 per ounce, indicating that they could continue to fall as development of the ore body proceeds.

The property has yet to be fully explored, but drilling results indicate there is tremendous potential exploration upside, which means that Lundin Gold's reserves and production should continue to expand.

Lundin Gold finished the third quarter 2018 with almost US\$292 million in cash and is in the process of negotiating a cost-override facility, which will offset the risk of any blowouts in budget or the schedule. The fact that the company is backed by senior gold miner **Newcrest Mining** mitigates much of the execution risk associated with the development of the mine.

## Why buy Lundin Gold?

The quality of the Fruta del Norte property combined with the considerable potential upside and considerable profitability make Lundin Gold an attractive play on higher gold. After conducting some rough calculations, accounting for gold reserves, projected AISCs, and an estimated average gold price of US\$1,200 per ounce while deducting total debt, Lundin Gold's reserves have an indicative value of around \$14 per share. This is more than triple the miner's current market value and indicates the tremendous upside that exists should the Fruta del Norte mine commence on schedule and meet expectations.

It should be noted, however, that mining is an inherently hazardous and capital-intensive activity. One of the riskiest stages for any mine is its construction and development with no guarantees that its performance on commencing operations will be as anticipated. This is evident from the issues that afflicted **Pretium Resources's** Brucejack mine, which saw the market heavily mark down the miner's stock.

Nonetheless, Lundin Gold is a very attractively valued play on higher gold for risk-tolerant contrarian investors that has the potential to triple in value.

### CATEGORY

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### TICKERS GLOBAL

1. TSX:LUG (Lundin Gold Inc.)

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mattdsmith

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