



Is This Gold Mining Stock a Bargain?

Description

Continental Gold's (TSX:CNL) shares have remained in free fall ever since three of its geologists were murdered by an [attack](#) on its facilities at its Berlin property in northwestern Colombia in late September 2018. Even the latest surge in gold, which sees the yellow metal trading at over US\$1,260 per ounce has failed to revive Continental Gold's stock. For the year to date, the miner is down by 39%, or roughly 10 times the 4% loss posted by gold.

While there is considerable concern in the market about the degree of risk associated with its operations and the development of its flagship Buritica project, much of that is overbaked. That means the latest sell-off has created an opportunity for risk-tolerant contrarian investors seeking outsized returns.

Now what?

Continental Gold is focused on developing the Buritica ore body located to the northwest of Colombia's second-largest city Medellin. That gold deposit is of the single-largest high-grade discoveries in recent years. It has been assessed to have reserves of 3.7 million gold ounces and over 10 million ounces of silver. The average grade for Buritica's gold reserves is an impressive 8.4 grams of gold per tonne of ore (g/t).

This is important to note, because the higher the grade, the cheaper and more economic it is to extract the gold from the surrounding ore. Because of that high grade, the mine on commencing commercial operations is forecast to have all-in sustaining costs (AISCs) of US\$492 per gold ounce produced. Those are some of the lowest AISCs in the gold mining industry and underscores the quality as well as profitability of the mine once commercial operations commence.

The project is fully permitted and financed, while overall construction of the mine at the end of November 2018 was 44% complete. The first gold pour is forecast for the first half of 2020, and commercial production is expected to be achieved during the second half of the year. For the first year, gold production is anticipated to be almost 300,000 ounces and the mine will on average produce 253,000 ounces annually over its operational life of 14 years.

The property, which encompasses 23 concessions over 29,465 hectares and 60 concession applications totalling 46,219 hectares, possesses considerable exploration upside. It is estimated to have a global resources of almost five million ounces of gold and 14 million ounces of silver. Recent drilling reports show high-grade gold intercepts with grades as high as an incredible 81 g/t at the property, illustrating the considerable likelihood of Continental Gold being able to expand its gold and silver reserves.

The attractiveness of the Buritica asset is underscored by senior gold miner **Newmont Mining** taking a 19.9% stake in Continental Gold for US\$109 million. This investment represents one of the highest premiums paid for a strategic investment in a gold project over the last two years. The backing of Newmont — along with the project being fully permitted and financed — helps to reduce much of the execution risk associated with developing a project of this scale.

Continental Gold's Berlin property is also an extremely attractive asset, but because of security issues the miner has elected to suspend operations at that property, although those issues do not impact its Buritica property. The latest spate of incidents highlights the risks associated with operating in Colombia.

However, since the 2016 peace agreement with the FARC and the guerilla group's subsequent demobilization, there has been a [significant improvement](#) in the security environment. The market's perceived degree of risk concerning Continental Gold's operations appears heavily overbaked.

So what?

Continental Gold's sharp sell-off in the wake of the armed attack on its employees while conducting exploration activities at its Berlin property has created an opportunity for investors to acquire a very attractively valued junior miner. The quality of its Buritica assets combined with the involvement of Newmont further underscores the considerable potential that Continental Gold possesses. Once the Buritica mine commences commercial production in accordance with projections, the miner's stock will soar significantly in value.

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