



## 1 Top Speculative Junior Miner to Buy in 2019

### Description

A bidding war appears to have erupted over junior gold miner **SolGold** ([TSX:SOLG](#)), which is conducting exploration work in the Andean nation of Ecuador. The miner's stock has soared by 28% over the last year, and there are indications that it could climb higher.

### Emerging as a potential takeover target

SolGold has been attracting considerable interest from a range of major miners. Australian senior gold miner **Newcrest Mining** recently upped its stake in SolGold to just over 15%. This is after the senior miner [invested](#) US\$250 million to acquire a 27% stake in **Lundin Gold**, which is developing the Fruta del Norte ore body in southwestern Ecuador.

Newcrest's investment in SolGold came months after the world's largest diversified miner BHP Group announced that it had acquired an additional 6% interest in the junior miner for US\$35 million, upping its total stake to just over 11%.

There is every likelihood that SolGold could become a takeover target, as senior miners move quickly to boost spending on quality exploration and development projects to make up for the emerging shortfall in reserves and production caused by underinvestment in new projects because of the last [commodity slump](#).

### Quality portfolio of mining assets

Aside from SolGold being a potential takeover target, there are a range of other factors that could propel its market value higher, especially if gold moves higher over the course of 2019. SolGold is focused on developing the Cascabel/Alpala project, in which it has an 85% controlling interest, located in the Andes mountains in northern Ecuador roughly a three-hour drive from the capital Quito.

The asset has indicated and inferred resources of 11 million tonnes of copper and 23 million ounces of gold. It should be noted that while the content of copper and gold at the project is vast, unlike proved

and probable reserves, there is no clear indication that the metals are economically viable to mine.

SolGold has a solid balance sheet and considerable liquidity. This leaves it well positioned to continue developing its assets, including the Alpala project. It finished the third quarter 2018 with A\$54.5 million in cash and no long-term debt.

## Lower jurisdictional risk

Historically, Ecuador has earned a bad reputation as a jurisdiction for foreign miners to operate in. Many gold miners, like **Kinross Gold**, failed to have any success in obtaining suitable frameworks in which to develop their projects, and it was this which saw the intermediate gold miner sell its Fruta del Norte project to Lundin Gold.

However, with the onset of the oil slump in late 2014, which had a sharp impact on fiscal revenues and growth in Ecuador's oil-dependent economy, the government elected to deregulate the sector and attract greater investment.

To offset the revenues lost from oil production because of the long slump in petroleum prices, Ecuador is targeting US\$4.6 billion in mining investment by 2021. Quito hopes that it will boost fiscal revenues through a combination of royalty, tax, and export income, thus alleviating the current budget deficit, which has ballooned to a startling 5% of gross domestic product.

To attract the required investment, Ecuador reduced taxes and reformed its mining regulations. The degree of political risk associated with the Andean nation has also been steadily decreasing, further enhancing its attractiveness as a destination for foreign investment.

## Why buy SolGold?

Like any junior explorer and miner, SolGold is a risky investment, but the involvement of senior gold miner Newcrest and the world's largest miner BHP reduces much of that risk. SolGold's Cascabel concession where the Apala project is located is an extremely attractive asset and is attracting considerable interest from larger, cashed-up miners seeking to boost their portfolio of development projects.

The fact that both major miners have recently bolstered their interests in the junior miner indicates that it could become a takeover target. If the two major miners move to take over SolGold, a bidding war could erupt, which would cause its stock to soar.

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