



## This Gold Junior Is a Top Play on Higher Gold

### Description

Gold is rallying higher, recently reaching its highest price since April 2018 to be trading at over US\$1,320 per ounce. This has sparked considerable speculation that the yellow metal has entered a new [bull market](#) and that gold will rise further. This bodes well for gold miners, with the **VanEck Vectors Gold Miners ETF** gaining a whopping 17% over the last month. While senior gold miners with proven developed operations are among the least risky means of gaining levered exposure to gold, junior miners that are developing quality assets that offer the most potential upside. One very attractive means of profiting from firmer gold is **Lundin Gold Inc.** ([TSX:LUG](#)).

### High-quality asset under development

The junior miner is focused on developing the controversial Furta del Norte ore body in southern Ecuador. According to Lundin's updated mine plan has reserves of five million gold ounces at an impressive average grade of 8.74 grams of gold per ton of ore (g/t). The high ore grade means that the mine on commencing commercial operations is forecast to have low industry leading all-in sustaining costs (AISCs) of US\$583 per gold ounce produced. This means Fruta del Norte will be a highly profitable operation for Lundin Gold, especially with gold trading at over US\$1,300 an ounce.

Notably, the permitted and financed project is progressing on schedule, with 85% of all required engineering executed and 45% of construction complete. In fact, Lundin Gold recently reported that underground mine declines have reached the ore body. The solid progress means that Lundin Gold will pour first gold during the fourth quarter 2019 and reach the all-important milestone of starting commercial production during the first half of 2020.

Once Lundin Gold consistently demonstrates that the mine is operating in accordance with its earlier technical report and estimates, its market value will surge higher. This is because it will confirm that Lundin Gold is capable of economically extracting its high-quality gold reserves and generate sizable earnings with the mine forecast to produce on average 330,000 ounces annually over its 15-year life.

The value of Lundin Gold's reserves indicate the tremendous upside available to investors. After conducting some rough calculations using an assumed gold price of US\$1,200 per ounce, deducting

total debt and applying a 5% discount rate, Lundin Gold's reserves have a value of around \$14 per share, almost triple its market price.

The attractiveness of the Fruta del Norte project is underscored by Australian senior gold miner **Newcrest Mining Ltd.** acquiring a 27% interest in Lundin Gold for US\$250 million in February 2018. The involvement of a senior miner, which has considerable resources and expertise at its disposal, reduces much of the execution risk associated with mine development. Newcrest has also been on a buying spree in the region, making big bets on two gold projects in Chile and upping its stake in another Ecuadorean [gold mining junior](#) **SolGold** to over 15%.

The mega-mergers of **Barrick Gold** and **Rangold** as well as **Newmont Mining** and **Goldcorp** has left Newcrest out in the cold, thereby creating considerable pressure for it to secure its future gold reserves and production by investing in junior miners and explorers. When this is considered in conjunction with considerable appeal of the Fruta del Norte project, Newcrest could make further investments in Lundin Gold or the junior miner may become a takeover target.

### Why buy Lundin Gold?

The quality of the Fruta del Norte ore body coupled with its low ASICs makes it a compelling asset to own. And with all major permits as well as financing is secured, reduced jurisdictional risk in Ecuador and the advanced stage of development Lundin Gold is a [very attractive](#) means of profiting from higher gold.

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