Is This Intermediate Gold Miner a Worthwhile Investment?

Description

Gold has pulled back sharply in recent days after hitting an 11-month high of over US$1,323 an ounce. While this has sparked some concern that gold will weaken further, there is every indication that 2019 will be a strong year for the precious metal. Many pundits believe that it has once again entered a bull market and could rise to US$1,350 per ounce or even higher. That positive outlook will be a boon for gold miners, which offers investors levered exposure to the precious yellow metal. A mid-tier gold miner that appears attractively valued is **Leagold Mining** (TSX:LMC).

Focus on Latin America

Leagold is focused on Latin America, where it has one producing mine in Mexico and another three in Brazil. The miner also has two growth projects comprised of the Los Filos expansion in Mexico and Santa Luz mine in Brazil, where it is has completed feasibility studies. Those properties endow Leagold with long-life reserves totaling 7.1 million gold ounces.

Firmer gold and the increasingly positive outlook for the yellow metal is a boon for Leagold, because it is a higher-cost operator, with it estimating 2018 all-in sustaining costs (AISCs) of around US$979 per gold ounce produced.

Last year was a pivotal period for Leagold because it transitioned from owning a single mine to a multiple-mine operator, acquiring the three Brazilian mines over the course of 2018.That not only beefed up its gold reserves and production but significantly reduced risk by eliminating its dependence on the Los Filos mine. Those operational mines, along with its development-stage projects, position Leagold to ultimately boost gold production to 700,000 ounces annually.

For the full year 2018, the miner achieved its annual guidance, announcing gold output of 302,550 ounces, which was at the upper end of the forecast range of 295,000-305,000 gold ounces.

Notably, the Los Filos mine for the fourth quarter 2018 reported record quarterly production of 58,201 gold ounces, which was 9% higher than the equivalent period a year earlier.

Leagold is forecasting that 2019 gold production will grow by 2% compared to 2018 to 400,000 ounces with average AISCs of US$920-970 per gold ounce produced. In an operating environment where gold is trading at above US$1,300 per ounce, that healthy increase in production as well as reduction in AISCs will give Leagold's earnings a solid lift. While some of the Brazilian mines acquired by Leagold are considered to be fringe assets by some pundits, the Santa Luz property and Los Filos expansion give it a clear path to reaching annual production of 700,000 gold ounces.

Santa Luz was an operational mine from 2013 to 2014, but its previous owner shuttered the mine because of poor recovery rates, which, combined with a sharp decline in gold prices, made it uneconomic. The updated October 2018 feasibility study indicates that Santa Luz has the capability to produce 100,000 gold ounces or more within 10 months of operations recommencing. During the first phase of operations AISCs will come to US$788 per gold ounce produced, underscoring the profitability of the mine once Leagold has further developed the property.

Importantly, the required permits allowing construction and the resumption of operations have been obtained.

The January 2019 feasibility study for Los Filos expansion indicates that once the necessary work is completed, the mine could produce around 400,000 gold ounces daily by 2021.

Is it time to buy Leagold?

Leagold appears attractively valued after losing 26% over the last year, which is considerably greater than the 2% drop in the price of gold. That indicates there is substantial upside ahead if the yellow metal remains firm. Leagold's operational performance over the course of 2019 illustrates that it can achieve its annual production guidance. The plans to significantly expand gold output by advancing the Los Filos Expansion and Santa Luz projects in conjunction with improvements being made at its three recently acquired Brazilian mines bode well for a marked increase in gold output. That will give earnings and ultimately its share price a healthy lift.

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