



Lundin Gold Inc (TSX:LUG) Is Entering a Pivotal Year: Is it Time to Buy?

Description

Lundin Gold ([TSX:LUG](#)) is a member of the Lundin Group of Companies. You may recognize one of its sister companies, **Lundin Mining**.

While some analysts are calling for Lundin Mining shares to [go on steroids](#), what does that future hold for Lundin Gold?

2019 will be a pivotal year

Headquartered in Vancouver with a corporate office in Ecuador, Lundin Gold is developing the Fruta del Norte gold project, of which it owns a 100% share. This project is one of the largest high-quality mines under construction.

Aurelian Resources discovered the mine in 2006. Then **Kinross Gold** bought the company in 2008 for \$1.2 billion, acquiring the property through the transaction. In 2014, Lundin Gold purchased the project for \$240 million, after which it worked to get the necessary permits, permissions, and studies to get the mine production ready.

While it's taken years to get to this point, 2019 should be the mine's first year of gold production.

An underground mine, Lundin Gold expects Fruta del Norte to have a production life of 15 years. All-in costs are an incredibly low US\$583 per ounce. Management expects it to produce 3,500 tonnes per day, resulting in around 325,000 ounces of gold per year. That would produce more than US\$400 million in revenues annually. In total, the mine contains gold worth \$4.5 billion at current prices.

One factor could fuel this stock higher

Commodity investors are often a difficult bunch. Take oil production for example. When a potential oil field is discovered, investors are usually willing to pay just pennies on the dollar versus its potential production. As these reserves are verified, the valuation jumps but typically still represents just 10% or

20% of the project's future value. Only when a field is producing does the market decide to re-rate the valuation towards its full potential.

Gold mines are no different. Fruta del Norte was worth only a few percent of its long-term value when first discovered. After feasibility studies were completed and all the necessary government permissions were attained, the market increased its valuation multiple. Still, the mine isn't valued as high as its in-production peers. With output beginning this year, expect the stock to finally be re-rated.

On an enterprise-to-gold-reserves basis, Lundin Gold trades at valuation of around \$225. Other mines, like **Atlantic Gold**, **Leagold Mining**, and **Roxgold** trade at two to three times this valuation. When production begins, a quick valuation bump may be in store.

Should you buy Lundin Gold?

Commodities, particularly mining, is an incredibly volatile business. Lundin Gold's stock, for example, is often subject to 50% swings in either direction. Since its highs set in 2017, Lundin Gold stock is down more than 30%, despite stable gold prices.

Long term, mining companies have been horrible stewards of shareholder capital. Quite often, management teams have redirected the profits of successful mines into lower-quality projects, especially during bull markets. This leaves companies bloated with debt and high-cost output.

However, the story for Lundin Mining over the next 12-24 months doesn't depend on the savvy of its management team. If production finally comes through and the project's low all-in costs can be validated, expect the stock to be rewarded.

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