



Why Is Royal Nickel Corp (TSX:RNX) Stock Up 600%?

Description

Royal Nickel Corp (TSX:RNX) has been on a tear. On September 7, shares stood at just \$0.10 apiece. A few weeks later, shares surpassed the \$1 mark. While the stock has come back a bit, its market capitalization is still around \$300 million.

Is this stock a pretender, or has the market just discovered the next mining giant?

A potential jackpot

With just \$18 million in cash and cash equivalents on hand, Royal Nickel doesn't seem like a major force like **First Quantum Minerals Limited** or **Barrick Gold Corp**. However, a few recent discoveries could catapult the stock into newfound respect.

The company's most promising asset is its Beta Hunt mine, which it believes has untapped exploration potential with significant high grade upside. The mine is located in a region that's produced more than 20 million ounces of gold since 1897.

In September of 2017, the company discovered around 740 ounces of gold, causing them to rethink the volume and mix of mineral deposits the land underneath contained. By 2018, the company uncovered an additional 1,677 ounces of gold, reaffirming the area's potential.

In September, additional work was completed that suggested a further potential of 30,000 ounces of gold. That amount is expected to be extracted from the initial discovery site alone. The full potential remains significantly higher.

Can the stock go higher?

If the initial discovery isn't built upon, the current \$300 million market cap is wildly overvalued. For current investors to win, significantly more gold needs to be discovered. To do that, Royal Nickel is beginning several large exploration programs to fully vet their existing resource grades.

Encouragingly, deposits have increased incrementally the further the company has drilled, suggesting a potentially large resource pool. The company also already has the infrastructure in place to mine and process these deposits, so any future discoveries could be brought online much quicker than usual.

For example, the initial discovery section has already allowed the company to produce more gold over the last 30 days than it has over the previous six months. In total, gold production for 2018 likely surpassed 80,000 ounces. In the third quarter alone, production hit 31,360 ounces, an increase of 200% versus the year before. These volumes easily set new quarterly production records.

Better grade resources have also pushed costs down. All-in sustaining costs are now around US\$1,000 per ounce, a notable improvement compared to last year's US\$1,600 breakeven level. The recent windfall has allowed the company to pay down \$33.5 million in long-term and convertible debt.

After a 600% rise, however, is there still room for more growth?

Here's what to do

Investing in gold miners is incredibly volatile. Choosing smaller, less proven companies like Royal Nickel can compound these risks.

Currently, the company has 450,000 of indicated and inferred gold reserves. At current prices, that would represent a value of more than \$700 million. With exploration and extraction costs, however, the net value to the company could be less than \$100 million, or about a third of its total market capitalization.

Reserves could compound quickly as new discoveries are completed, and a market value in excess of \$1 billion is certainly possible. However, at this point, it's a complete roll of the dice. If you take a chance, be sure to keep your allocation to a level you're comfortable with.

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Date

2025/09/12

Date Created

2019/03/04

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