



Is Northern Dynasty Minerals Ltd (TSX:NDM) the Next First Quantum Minerals Limited (TSX:FM)?

Description

After hitting a multi-year high in 2017 of \$4.40, shares of **Northern Dynasty Minerals Ltd** ([TSX:NDM](#)) are back to a \$400 million market cap, resulting in a share price of just \$1.20. Despite the volatility, however, there are many similarities between Northern Dynasty and its \$10 billion peer, **First Quantum Minerals Limited** ([TSX:FM](#)).

Over the years, First Quantum has been a constant subject of [bankruptcy rumors](#), causing the stock to experience infrequent, but regular swings of 50% or more. If you could stomach the extreme volatility, the stock has handily outpaced the TSX average. Since 2006, shares have increased by roughly 500% compared to a TSX index gain of just 35%.

Does Northern Dynasty really have the potential to become a multi-billion dollar company?

It's early enough for major gains

Resources investing can be a tricky game. Often, the biggest gains come from investing far before production has begun. When these bets succeed, they often lead to gains of 1,000% or more. Frequently, however, investors lose everything.

Because of the huge disparity in potential outcomes, the market places a significantly lower value on measured and indicated reserves, one of the earliest stages in a mine's life. While these estimates can inform the future value of the project, major risks remain to actualizing this value. Extraction costs can balloon or funding can run dry. Ultimately, even the original estimates can turn out to be overly optimistic.

Northern Dynasty's main asset, its Pebble Project, isn't producing yet, meaning that the market is assigning an incredibly low value to it. Long-term, however, patient investors could be rewarded handsomely for taking an early risk.

The Pebble Project is a Tier 1 asset based on nearly every metric. In total, it's expected to hold 57 billion pounds of copper, 71 million ounces of gold, 3.4 billion pounds of Molybdenum, and 345 million ounces of silver. That's a lot of value, but several hurdles remain.

Full value could take years

Currently, the Pebble Project is in the permitting stage. Each step of this process can take months, or even years. For example, Northern Dynasty entered the EIS permitting process in December of 2017. By January, the US Army Corps of Engineers confirmed the application. It wasn't until February of 2019 that Northern Dynasty was advanced to the next stage—a full 14 months after it began this process.

The company still needs to wait three months for public comment and another 12 months for the final EIS report. A final decision won't be made until the second quarter of 2020.

What happens then?

Hopefully, Northern Dynasty will receive a 404 permit under the Clean Water and Clean Air Act, paving the way for construction to begin. Even then, the project will require four years of preparation before output begins. A 270-megawatt natural gas power plant will need to be built, as well as an 83-mile transportation system (including a ferry crossing).

At best, the mine will start producing around 2024 or 2025, the latter being more likely. But with a 20-year life, assuming 70 million tons per year mined, the market would likely assign a multi-billion valuation at that point. Even more likely, the mine would be bought out by a large mining company.

How should you invest?

There's a large probability that investors will lose everything on this deal—too much can go wrong. Even if things pan out, so many uncertainties exist in terms of extraction costs and future commodity prices.

Back in October, shares traded at a market cap of just \$200 million. That's a much better entry point for what equates to a high-risk, high-reward casino bet. Take your chances if you must, but understand that this stock is just as much luck as it is skill.

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