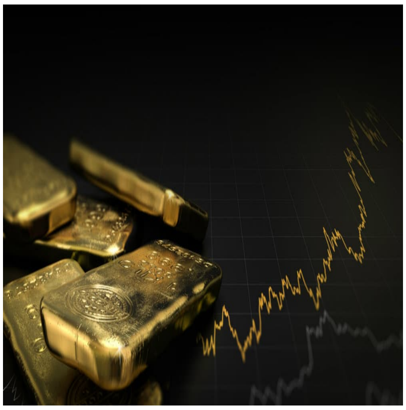

Does Guyana Goldfields Inc. (TSX:GUY) Still Have Massive Upside in 2019?

Description

In January, I wrote how **Guyana Goldfields** (TSX:GUY) could have 1,000% upside in 2019. Specifically, I noted how the stock trades at a "heavy discount to its competitors, at just 0.2 times its net asset value."

Since my article was published, shares have sunk a further 16%. Is there still massive upside to Guyana stock this year or are shares a classic value trap?

Consider the latest news

In my last article, I highlighted how index rebalancing unfairly and indiscriminately pressured shares.

In 2017, an $18 billion ETF sold its stakes of junior miners, including Guyana Goldfields. One research report summed up the damage perfectly: "The juice that used to be provided by the smaller miners is now either gone or at least largely diluted."

That year, shares fell 50%, providing what appeared to be a structural buying opportunity due to forced selling.

Over the past 12 months, however, shares have continued to fall from $5 to just $1.50. What's going on?

In 2018, the company's management team was completely replaced following inaccurate estimates by the previous regime. The company's resource model, built in 2012, made a number of errors that overinflated the company's reserves. Guyana is currently completing a resource model review, which should be completed in March of 2019.

Until that new resource model is released, shares will remain heavily discounted. Looking at the assumptions, however, there's still reason to believe shares could re-rate quickly.

Is this story broken?

Originally, the company’s Aurora mine reportedly had the highest grades of gold in the industry, with 2.9 g/t AuEq. Competitors including **Yamana Gold**, **Tahoe Resources**, and **Kinross Gold** have grades of around 0.7 g/t AuEq.

In Guyana’s old resource model, it appears as if its highest-grade areas, including Rory’s Knoll, were improperly extrapolated into areas with lower-grade deposits. Still, the 2.9 g/t AuEq figure leaves plenty of room for error. Even a 75% haircut to those estimates would result in grade densities similar to Guyana’s biggest peers.

All-in sustaining costs are still expected to be between US$1,025 and US$1,050 per ounce, so Guyana can still be profitable after the new resource model is released.

With $82 million in cash and just $40 million in debt, the company is far from struggling to survive, making its heavy discount compared to both its peer average and asset value appear overdone. When the resource model is completed in March, it should deliver bad news, but the current valuation is pricing in horrendous news.

Keep it simple

Buying shares of Guyana is a simple probability bet.

Today, the market is in wait-and-see mode, refusing to assign any sort of reasonable valuation until more clarity is achieved regarding the resource model. Even if revised estimates are significantly lower than 2012’s projections, that risk looks already priced in.

There may not be 1,000% upside anymore, but a move of 100% or more could occur quickly when the stock re-rates. Guyana shares still seem like a reasonable bet — just keep its position size commensurate with a speculative security.

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