Why Has This Junior Gold Miner Surged by 26% Since the Start of 2019?

Description

When looking to invest in gold, most investors consider only the major gold miners, but one of the best means of accessing outsized returns is by investing in junior gold miners that own high-quality development-stage projects. One that stands out for all the right reasons, despite experiencing some serious setbacks during 2018, is **Continental Gold** (TSX:CNL). The second half of 2018 was filled with bad news for shareholders. The miner experienced armed assaults against its operations and employees in northwestern Colombia as well as cost blowouts at its flagship Buritica project, which weighed heavily on its stock.

Financing completed

Finally, Continental Gold has been able to announce some exceptionally good news; it has successfully obtained a US$175 million financing package. The package consists of US$75 million in convertible debentures with US$50 million of that sum being acquired by senior miner **Newmont Mining**, which already holds an almost 20% stake in Continental Gold. If Newmont converted its debenture to shares, then its ownership of Continental Gold would rise to around 28%. The remaining US$100 million of the financing package is comprised of a gold and silver stream issued by Triple Flag Mining Finance Bermuda.

That deal provides Continental Gold with more than enough capital to complete the development of the Buritica project, including covering the funding shortfall of up to US$126 million identified at the end of the second quarter 2018. This substantially reduces much of the risk associated with developing Buritica, which Continental Gold announced in March 2019 was 47% complete with the first gold pour scheduled for the first half of 2020.

Newmont's significant ongoing support of Continental Gold is easy to understand. The Buritica ore body is one of the largest high-grade gold deposits under development globally. It has been assessed to have proven and probable reserves of 3.7 million gold ounces at an impressive average grade of 8.4 grams of gold per tonne of ore (g/t). Because of that high grade, the gold is especially economic to extract, meaning that Buritica will have all-in sustaining costs (AISCs) of around US$600 per gold ounce sold. The mine is expected to commence commercial production during the second half of 2020, producing on average 253,000 gold ounces annually over the mine's 14-year life.

Those low costs and substantial annual gold output underscore Buritica's considerable profitability in an operating environment where gold is trading at over US$1,300 an ounce.

In an operating environment where many senior and intermediate gold miners are struggling to guarantee future gold reserves and production because of a lack of development opportunities, it bolsters Newmont's outlook. The investment in Continental Gold gives Newmont the ability to scale up its presence in Colombia, which is arguably one of the least-developed precious metal mining jurisdictions in Latin America. Especially since the Andean nation's government focused on getting its house in order to attract significantly more foreign investment into its precious metals mining industry, it possesses considerable potential, which has been compared to that of neighbouring Peru.

Why buy Continental Gold?

Even after the latest rally, Continental Gold still appears very attractively valued. Not only is it trading at less than then $4 per share paid by Newmont for its original 19.9% purchase in 2017, but it is also less than the price targets set by analysts. Continental Gold is also trading at over 40% lower than its nearest comparable peer Lundin Gold, which is developing the Fruta del Norte ore body in neighbouring Ecuador and possesses similar characteristics to the Buritica deposit. Those factors — along with the miner's low estimated AISCs, the securing of additional finance, and firmer gold — indicate that now is the time for contrarian risk-tolerant investors to acquire Continental Gold.

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