



The Latest News Makes Now the Time to Buy This Gold Miner

Description

Growing economic and geopolitical uncertainty continues to weigh on stocks and support the price of defensive assets — notably, gold. There are growing claims among analysts that gold could reach US\$1,400 an ounce or even higher during 2019. This will be a boon for gold miners with high-quality low-cost [operations](#), like **Dundee Precious Metals** ([TSX:DPM](#)).

Production at Krumovgrad commences

The intermediate miner, which is focused on developing its assets in Bulgaria, recently announced that had achieved a significant milestone by achieving first gold concentrate production at its open pit Krumovgrad mine. After commissioning, the mine processed 650 tonnes of ore to produce that gold concentrate. As of the end of February 2019, the mine was 97% complete, and it is anticipated to achieve commercial production by the end of the second quarter 2019.

Krumovgrad is expected to produce 55,000-75,000 ounces for the year, which will be ramped up to around 100,000 gold ounces annually at an average cash cost of US\$404 per ounce produced for the first five years of operations. That will give Dundee Precious Metal's 2019 earnings a solid boost.

Notably, the mine has come online below budget. It was originally forecast that initial capital costs would be US\$178 million, but this has been reduced to US\$164-166 million, or, at the upper end, 7% lower than planned. This highlights the quality of the asset and management's ongoing focus on controlling costs.

Growing production

Dundee Precious Metals also operates the Chelopech mine in Bulgaria, which, during 2018, produced 201,100 gold ounces and 37 million pounds of copper — 2% and 2.5% greater year over year, respectively. The miner reported all-in sustaining costs (AISCs) for its gold production of US\$659 per ounce sold, underscoring the profitability of the Chelopech mine.

Dundee Precious Metals's Tsumeb copper smelter in Namibia processed 232,043 metric tonnes of copper, which was 6% greater than a year earlier at an average cash cost of US\$445 compared to US\$458 per tonne in 2017.

For 2019, Dundee Precious Metals has forecast gold output of 210,000-262,000 ounces, which, at its midpoint, is 17% higher than 2018. It anticipates that AISCs for 2019 will be between US\$675 and US\$820 per ounce sold; while higher than 2018, they should not have a material impact on earnings because they will be offset by higher gold and production. Those increased AISCs reflect the additional expenses associated with ramping up operations at Krumovgrad to achieve steady-state commercial production. Once this is attained, Dundee Precious Metals's AISCs should fall, boosting profitability.

The miner also has a solid reserve base, holding 2.7 million gold ounces, of which 70% is at Chelopech, as well as 376 million pounds of copper at that mine. Measured and indicated resources of 3.4 million gold ounces — along with ongoing exploration activities at Chelopech as well as Krumovgrad and the ongoing assessment of the Timok gold project — indicate that there is considerable exploration upside. This should see Dundee Precious Metals's reserves and production continue to expand over coming years.

It is also in a strong financial position with debt a mere 0.3 times 2018 adjusted EBITDA and US\$17 million of cash on hand at the end of that year. This endows Dundee Precious Metals with considerable financial flexibility and significantly reduces its vulnerability to weaker gold and copper prices.

Is it time to buy Dundee Precious Metals?

Dundee Precious Metals's considerable reserves, low operating costs, significant exploration upside, and solid balance sheet make it an attractive play on higher gold. This is enhanced by the fact that it is attractively valued when it is considered that it has a price of around 0.75 times the net asset value of its gold and copper reserves. As [gold rallies higher](#), Dundee Precious Metals stock should soar. If its share price to net asset value reaches the industry average for intermediate gold miners, then it will need to almost double.

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Date

2025/09/12

Date Created

2019/03/25

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