Buy This Junior Gold Miner Now Before It Doubles

Description

Investors seeking access to outsized returns should look no further than exploration and development stage precious metals miners. There is a long-established history of those with quality properties, high ore grades, considerable exploration upside and a little bit of luck exploding in value as the market recognizes their earning potential.

While many smaller precious metals miners will succumb to the hazards associated with what is a risky and capital-intensive activity, there are those that will soar once the market recognizes their true value.

Continental Gold (TSX:CNL) is an attractively valued development stage gold miner. The miner experienced a very rough 2018, which was capped off with the tragic murder of three geologists at its Berlin property in North Western Colombia.

Even after rallying substantially since the end of January 2019, Continental Gold is still down by 13% over the last year, creating an opportunity for investors who want exposure to one of the highest quality gold projects currently under development globally.

High-quality flagship asset

Buritica has been determined to have gold reserves of 3.7 million ounces, with an impressive average grade of 8.4 grams of gold per ton of ore (g/t). It's anticipated that the mine will have industry low all-in sustaining costs (AISCs) of around US$600 per gold ounce mined.

That highlights the considerable profitability of Buritica once commercial production commences in 2020, especially with gold trading at over US$1,300 per ounce at writing.

The property possesses significant exploration upside, as illustrated by recent drilling results, where gold grades were between an impressive 8 g/t and almost 25 g/t. Continental Gold also recently released an update mineral resource estimate, which saw the volume of measured and indicated that gold resources expand by 19% to 5.32 million ounces at an average grader of 10.32 g/t. For these reasons, it isn't difficult to see the miner's precious metals reserves expanding at a solid clip during the foreseeable future.

Reduced risk

A renewed focus by Colombian president Duque to enhance internal security coupled with a big push to boost foreign investment in Colombia's mining sector will help to reduce geopolitical risk. Continental Gold also recently successfully raised an additional US$175 million composed of a US$100 million streaming package and US$75 million in debentures.

That additional funding will cover the shortfall identified in 2018, which was predominantly caused by the Colombian government introducing stricter regulations rather than issues with mine development.

Senior gold miner **Newmont Mining,** which acquired a 19.9% stake in Continental in 2017, invested an additional US$50 million in the debentures which if converted to stock will take its stake to 28%. The backing of Newmont underscores the quality of Buritica and mitigates much of the execution risk associated with the project.

It appears that Newmont can't get enough of Colombia with the Andean nation considered to hold considerable potential for precious metals mining on a scale similar too Peru. The senior gold miner has acquired interests in a range of junior gold miners aside from Continental Gold which have projects in the South American nation.

Newmont will likely move to acquire all of Continental Gold as it ramps up investment in development stage gold projects and seeks to guarantee future reserves and production growth.

Is Continental Gold an attractive investment?

The miner appears attractively valued when it is considered that **Lundin Gold,** which is developing the Fruta del Norte ore body in neighbouring Ecuador that possesses very similar attributes to Buritica, is trading at more than double Continental Gold's share price.

After conducting some rough calculations using an assumed gold price of US$1,200 per ounce, deducting total costs to construct and commission Buritica and applying a 5% discount rate in accordance with industry methodology, Continental Gold has an indicative fair value of almost $8 per share.

There is no guarantee that all the miner's reserves can be mined economically and there are still considerable risks associated with completing the construction of the mine and bringing it online. That indicative fair value however, is almost triple Continental Gold's current market price and highlights that it could more than double in value once commercial production is achieved.

This indicates that the risk reward equation is in favour of investors and makes Continental Gold an appealing investment for those seeking exposure to gold and the potential to earn outsized returns.

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