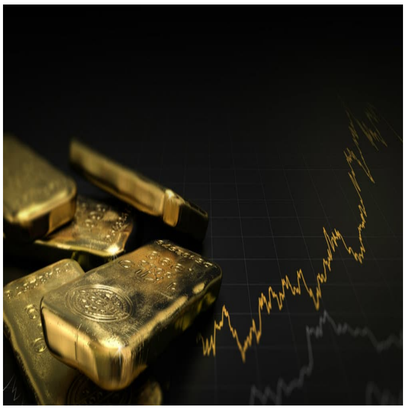

2 Gold Stocks to Buy and 1 to Sell

Description

Not all gold stocks are created equal. In fact, nearly every gold mining company seems to have a different strategy.

Some focus on low-cost production while others search for the next big exploration discovery. Many have operations in far-flung international locales, while some focus entirely on low-risk regions like Alaska.

Here are a few picks that cover some of the market's most promising opportunities. But pay attention: one of these stocks looks overvalued.

Lundin Gold (TSX:LUG)

2019 should be a pivotal year for Lundin Gold given its Fruta del Norte gold project should enter production. Located in Ecuador, this gold mine is one of the largest projects under development worldwide.

Lundin Gold first bought the project back in 2014. At the time, it still needed to pass several large regulatory hurdles. Lundin Gold also needed to design and build the infrastructure needed to begin production. Five years later, the time has come to see if the company's long-term investment will pay off.

The mine is expected to produce at least US$400 million in annual sales. With breakeven levels below US$600 an ounce, Lundin Gold is set to become a cash flow machine.

The stock currently trades at just 1.5 times book value — a deep discount versus producing peers like **Barrick Gold** (TSX:ABX)(NYSE:GOLD), which trades at three times book value. As production comes online, this discount could narrow quickly.

Barrick Gold

As mentioned above, Barrick Gold stock trades at three times book value — a premium versus many smaller peers. Is this premium justified?

Over the past five years, Lundin Gold shares have returned roughly 30%. Barrick Gold shares have *fallen* in price over the same period, shedding around 10% in value. If any company deserves a premium valuation on its assets, it would be Lundin Gold, not Barrick Gold.

Despite the premium valuation, the company has some quality assets. In January, it merged with Randgold, giving it more tier-one assets than any mining company in the world.

Newfound scale should allow it to reduce costs quickly, but at three times book value, it appears as if much of the upside is already priced in. I'm adding this to the watch list, but will only become interested if the stock drops closer to its five-year average of two times book value.

Guyana Goldfields (TSX:GUY)

Guyana is perhaps the most compelling risk/reward tradeoff on this list. But be careful: this is a high-risk/high-reward scenario.

In January, I highlighted that the stock trades at a "heavy discount to its competitors, at just 0.2 times its net asset value (NAV)." Since then, the discount has widened even further. A recent update to its resource model showed that the assets backing its estimated NAV were overinflated.

Even with the lower estimates, Guyana's net book value remained above $300 million. The company has lost the trust of the market, but if it can execute its remaining assets, expect that discount to narrow.

Most importantly, management reiterated in March that it can self-fund all future growth. With its current portfolio, the company is confident it can generate enough cash to maintain an adequate cash balance and service its debt. That greatly reduces the risk of dilution while investors wait for new production numbers.

Guyana remains a lottery ticket investment, but sized appropriately, it could be a nice addition to a diversified portfolio.

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1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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2. TSX:ABX (Barrick Mining)
3. TSX:LUG (Lundin Gold Inc.)

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rvanzo