



This Tiny Canadian Gold Stock Could Be Ready to Spike Higher

Description

Guyana Goldfields (TSX:GUY) has a checkered past, but previous troubles may have made this stock a bargain.

In 2016, Guyana stock was trading as high as \$10 per share. Today, they're barely over \$1 apiece. With a market cap of roughly \$200 million, many investors are calling it quits.

To be sure, this stock comes with plenty of risks, but if you dig a bit deeper, an attractive bet emerges. Here's how Guyana stock could spike significantly higher.

High risk, high reward

Few stocks that come with multi-bagger upside have limited risks. With Guyana, an investment is a simple bet that the market has overly punished the stock for some recent mishaps.

The biggest overhang is the company's update to its resource model.

Before constructing a mine, companies rely on resource models to predict how much potential the ground beneath them has. Resource models are just educated guesses, however, and can't be relied on entirely.

In Guyana's case, its educated guess turned out to be wrong. The error wasn't in its favour, either.

When Guyana updated its resource model this year, proven and probable reserves of gold fell by 1.69 million ounces. In total, its gold reserves fell by 43%. The stock fell by more than 50% in response.

The projected life of the mine was lowered to just 13 years, during which it will produce 2.15 million ounces.

The market has dumped the stock, but based on the updated resource model (which is much more conservative), there still is value to this company.

How much are shares worth now?

Guyana re-estimated the value of its mining operations using the new resource model, a 5% discount rate, and US\$1,300 per ounce gold prices. After tax, it estimates the mine to be worth \$454 million.

The company also has a net cash position of \$38 million. Adding that to the value of the mine results in an estimated value of \$492 million.

With these assumptions, Guyana stock would have nearly 200% in upside. Even using a higher discount rate — which appears warranted — there could still be 100% upside or more.

There are plenty of risks to this investment, however.

First, Guyana's management team doesn't have a great track record of producing accurate resource models. While it's likely learned its lesson following a devastating update, there may still be more dominoes to fall.

Second, if gold prices fall, the value of Guyana's stock could fall towards \$0 per share. Last fall, gold prices fell to just US\$1,200 per ounce. If that price level repeats itself, Guyana shares could have 50% additional downside.

Lastly, mining operations are historically fickle, rife with cost overruns and delays. Guyana's valuation model uses an aggressive 5% discount rate, so any unexpected issues would throw its estimates out the window.

Essentially a lottery ticket

At this point, investing in Guyana stock is like buying a lottery ticket, albeit with significantly better odds.

If Guyana's new forecast comes to pass, there's likely plenty of upside. As mentioned, however, there are several risks that can induce 50% downside or more.

If you take a chance with Guyana stock, make sure to size the position appropriately given the risk.

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