



## Why Has This Junior Gold Miner Soared by Over 50% Since the Start of 2019?

### Description

Gold continues to make solid gains, despite firmer optimism over the global economic outlook. The yellow metal has gained around 10% since the start of 2019 to be trading at US\$1,430 per ounce. This has been a boon for gold mining stocks with many making significant gains over the same period. Development-stage gold miner **Lundin Gold** ([TSX:LUG](#)) has seen its stock surge by a whopping 53%, and there is still further considerable upside available, even after this rally.

### Promising short-term outlook

This year and 2020 are [pivotal years](#) for Lundin Gold, which is developing the Fruta del Norte ore body in Ecuador. First gold is expected in the fourth quarter 2019, and the miner anticipates that commercial production will begin during the first half of 2020. Fruta del Norte is located within a major mineralized trend and has gold reserves of five million ounces at an average grade of 8.74 grams of gold per tonne (g/t) of ore. Those characteristics make it one of the largest high-grade gold projects under development globally.

Such an impressive grade makes it more economic and hence profitable to extract the gold from the surrounding ore. For this reason, it has been estimated that Fruta del Norte, over the 15-year life of the mine, will have average all-in sustaining costs (AISCs) of US\$583 per ounce of gold mined. Those are at the lower end of the range for a gold mine and underscore the considerable potential that the operation possesses.

Underground construction is ahead of schedule, and the mine is overall 73% complete, on budget and schedule. Lundin Gold also announced at the end of June 2019 that it had commenced mining its first production stope. It is anticipated that the mine will produce on average over 310,000 gold ounces annually during the first 13 years of operation, putting Lundin Gold in the top tier of gold producers.

The Fruta del Norte mineral concession contains significant exploration upside. There are 64,400 hectares available for exploration and evidence of the presence of gold in a range of mineralized trends, which has seen Lundin Gold identify several high-priority drilling targets.

For many years, market pundits were exceptionally pessimistic over Lundin Gold's ability to execute the project and bring the mine to commercial production. This is because Ecuador had a reputation of being a high-risk jurisdiction in which to operate due to unfavourable taxation and regulatory regimes.

Much of that risk subsided when Quito reformed taxes and the regulation of the mining industry to attract more foreign investment and boost economic activity. That saw Lundin Gold negotiate some favourable terms for its Fruta del Norte operations. It also sparked an explosion of mining activity in Ecuador, which some industry insiders claim has similar potential to neighbouring Peru — a major precious and base metals mining jurisdiction in South America.

The quality of the Fruta del Norte asset has attracted considerable attention from senior gold miners with Australia's **Newcrest Mining** acquiring a 27% stake in Lundin Gold for US\$250 million in February 2018. Newcrest's involvement helps to mitigate much of the execution risk associated with a mining project of this size and acts as an important backstop for Lundin Gold.

## Foolish takeaway

Lundin Gold is an [attractive play](#) on higher gold, particularly when it is considered that the base case for all assumptions relating to the Fruta del Norte project were based on US\$1,250 per ounce, which is around 14% lower than the current spot price. Once Lundin Gold reports the successful commencement of commercial production, its stock will soar and could rally to over \$10 per share, meaning that it offers around 30% upside.

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