How Artificial Intelligence Boosts Canada's Gold Stocks

Description

Machine learning and artificial intelligence are making it cheaper to locate and explore new mining opportunities in Canada's natural resource sector. Gold exploration is difficult and risky – but data science may improve the odds of profitable discoveries.

Prospecting for gold requires a valuation of the mineral deposits before mining can begin. If mining starts on a low-value reserve, the company could potentially lose money on the project. That's where new methods in predictive analytics come into play to help gold prospectors make vital decisions.

Gold mining corporations in Canada, including **Kinross Gold** (TSX:K)(NYSE:KGC) are integrating artificial intelligence technology to improve the safety and profitability of mines.

University of Nevada partners with Kinross Gold

University College of Science assistant professor Javad Sattarvand commented on the recent partnership between the University of Nevada at Reno and Kinross Gold:

"Failure is inevitable in any mine. The path to safer and healthier mining operations crosses only through the development of an academic human resource capacity with a greater understanding of emerging technological infrastructures."

With the help of Sattarvand and other academics at the University of Nevada, gold mining will expand upon its existing technology to include rockfall alert systems, explosive optimization, intelligent exposure systems, and smart evacuation protocols using smartwatches.

It isn't easy to train and retain talent in a dangerous industry like mining when young millennials prefer to go to school for more white-collar office jobs. Artificial intelligence will ultimately make miners healthier and safer as they perform these crucial functions. This also means it will be less costly to manage mining administration – a significant source for waste in a corporation like Kinross.

AI increases the NPV of projects

Artificial intelligence technology is also working to shorten project timelines to improve the profitability of mining operations. Project timelines sometimes involve high upfront costs and push back returns into the future. Reducing the timeline will raise the *net present value* of the project. The net present value is how much the value of future cash flows are worth to an investor today.

To compensate for risk, inflation, and opportunity cost, companies must discount future income by dividing the amount by (1-*i*) raised to a power of *t*. The calculation reduces the present value of future income to account for inflation, which erodes the value of money over time.

Exponentiating the function by the power of *t* represents the time period since the initial investment, usually in years. As *t* increases, the future cash flows are reduced by ever greater amounts. Thus, shortening the time between the initial investment and the future income raises the net present value of an investment.

Kinross already boasts a profit margin of 5.15%; a higher net present value on future projects means higher margins and earnings-per-share. Kinross may be the gold mining stock on the TSX with the most volume at the time of writing, but the stock is rated overvalued at a low $4.24 per share. The stock needs to gain from productivity enhancements in technology to stay alive.

Foolish takeaway

Canadian investors should keep an eye on the profit margins in Canada’s mining industry. Artificial intelligence and automation have the potential to make a low return industry more lucrative. If this happens, some of these overvalued gold mining stocks may become buying opportunities.

It is important not to jump on this too soon, however. We don’t yet know how artificial intelligence will ultimately shape the future of the natural resource industry. Until we know for sure, look into picking up banking, insurance, and telecommunications stocks going into 2020.

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