Buy This Small-Cap Gold Miner Today Before it Doubles

Description

The growing optimism surrounding the global economy, triggered by the Fed's latest rate cut and signs that the U.S.-China trade tensions may soon be resolved has hit gold hard. The yellow metal has plummeted from a multi-year high of over US$1,550 per ounce reached in September to be trading at around $1,455 an ounce. This has seen gold miners marked down by the market, creating an opportunity for investors to bolster their exposure to the yellow metal at an attractive price.

One miner that I have been bullish on for some time is **Lundin Gold** (TSX:LUG). The miner has delivered considerable value for investors, gaining 61% over the last year, despite gold's latest weakness and the yellow metal rising by only 18% for that period.

Improved outlook

The development stage miner recently announced that the Fruta del Norte mine was mechanically complete and that it had commenced production, making its first gold pour earlier this month. This is an important milestone, boding well for Lundin Gold to achieve commercial production during the first half of 2020.

Furta del Norte is an impressive asset to own, and when Lundin Gold reports that commercial operations in line with its projections are achieved, its stock will soar. The mine has proven and probable gold reserves of 5.02 million ounces at an average grade of 8.74 grams of gold per tonne of ore (g/t), giving it impressively low forecast all-in sustaining costs of US$583 per ounce produced. That underscores Lundin Gold's considerable profitability in an operating environment where gold is trading at around US$1,455 an ounce. This is further illustrated by the fact that all assumptions regarding the mine's operations use a gold price of US$1,250 per ounce.

Lundin Gold appears very attractively valued in the current operating environment. Its gold reserves — at an assumed price of US$1,250 per ounce after allowing for AISCs, total liabilities, and applying a 5% discount rate in accordance with industry methodology — have a pre-tax value of around $14 per share. That is almost double Lundin Gold's market value, highlighting the considerable upside that exists should the Fruta del Norte mine perform as anticipated.

If gold remains trading at US$1,450 per ounce or higher for a prolonged period, then the value of those reserves will expand, bolstering Lundin Gold's asset value per share, further illustrating that there is considerable upside ahead.

Ecuador's push to attract significant foreign investment to invigorate its burgeoning mining sector and bolster an extremely weak economy, which is suffering from a fiscal crisis, has seen it make considerable regulatory reforms. The Andean nation has reduced the legislative, regulatory, and tax burden for foreign miners, making it a more attractive and significantly less-risky destination for investors. The marked decrease in geopolitical risk further supports Lundin Gold's market value, particularly when it is considered that the Fruta del Norte project was essentially unaffected by the recent civil unrest in Ecuador.

Foolish takeaway

There is every indication that gold could rise again, because the global economic outlook is not as positive as the current optimism indicates. Manufacturing activity in all major industrialized economies remains weak. There are fears that the U.S.-China trade war could erupt once again. And it appears that the Eurozone's largest economy, Germany, has slipped into recession. All that — along with rising geopolitical risk in the Middle East and Latin Americas as well as higher oil — could crimp global growth, making safe-haven assets, notably gold, more attractive. If gold rebounds to over US$1,500 per ounce, it will give Lundin Gold's stock a healthy lift, making now the time to buy.

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