Triple Your Money in 2020 With This High-Risk, High-Reward Canadian Stock

Description

I recently highlighted a TSX stock that could double in price over the next 12 months. “To find stocks that can rise 100% in under a year takes some extra research and prudent risk-taking,” I wrote.

But what if you want to *triple* your money next year? That’s still possible, but you’ll need to take on even more risk. If you position this bet appropriately, however, it could be worth a small wager.

If you earn 10% returns every year, it’ll take nearly 13 years to triple your money. With this stock, you can achieve the same results in a single year.

A perfect storm

Guyana Goldfields (TSX:GUY) has been mining in Guyana for more than two decades. It’s one of the country’s largest employers and is responsible for one-quarter of all the gold mined there.

From 2000 to 2016, shares rose by an incredible 2,400%. A $10,000 investment would have become $240,000 in just 16 years. It’s difficult to find that level of return anywhere else.

Mining can be a volatile business, however. Before mining, companies develop a resource model, which projects how much value is in the ground below. Although they use the latest technologies, it’s always just an educated guess. Sometimes, these resource models miss the mark. Because shares are valued around what the resource model says, any changes have a big effect on the stock.

This year, Guyana was forced to reduce its estimate of proven and probable gold reserves by 1.7 million ounces. That represented a 43% decline, sending the stock down a similar amount. With a lowered resource estimate, the mine’s life was reduced to just 13 years.

Following the resource model update, investors fled the stock en masse. In total, Guyana’s stock price has drifted lower by 94% since 2016. Few analysts are paying attention to the stock today. That’s caused a major mispricing of shares, giving risk-tolerant investors a chance to capitalize.

Time to strike

Guyana has transformed its executive leadership, completely revising previous resource models to provide a very conservative estimate for reserves. Yet even with improved management and low-ball estimates, the current stock price has plummeted far below the company's intrinsic value. That's likely due to its small size and lack of shareholder trust given historical missteps.

Gold prices today hover around US$1,450 per ounce, yet Guyana management has calculated the theoretical value of its mining operations using a conservative US$1,300 per ounce assumption, providing a margin for error. Using that price assumption, the after-tax net present value of the mine, using a 5% discount rate, is roughly $600 million. Using a 10% discount rate results in a value closer to $300 million.

The company's current market cap is $100 million. That means the stock would at least triple if the latest resource model and cost estimates are correct. Again, that's using an updated reserve calculation with conservative pricing assumptions. Even if the model still has errors, there could be 100% upside.

The risk, of course, is that the company needs to restate its resource model again, destroying the valuation math above. But the new leadership has reason to remain conservative considering the fatal mistakes of the previous regime. If you're willing to trust their estimates, this stock is your best chance to triple your money in 2020.

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