A new copper/gold company that needs to be watched

Current price US$4.20

During the last 18 months or so we have consistently advised the purchase of base metal mining companies and stressed that they were, generally speaking, undervalued when compared to pure gold mining situations. Ideally, for the longer term, we have suggested companies which produce both base and precious metals in the belief that earnings would be smooth over time and that eventually, the base metal mining sector would be rerated upwards. We have also pointed out that during the last few years few major base metal ore reserves have been found because most companies have concentrated on gold exploration. In this regard, Continental Gold Corp are of interest in that their Mount Milligan project combines both gold and copper. The project, which is owned 70% by Continental Gold Corp and 30% by BP Resources Canada Ltd is located in British Columbia near Fort St James.

The company currently states that reserves total 200m tons grading 0.025 oz of gold/ton and 0.3% copper. On their current projections, the mine could be started up by the end of 1992 at a capital cost of C$230m. The company's provisional plans are for a 13m ton/annum operation which would give a 15-year life. Their projections are for an annual production of 278,000 oz of gold and 64m lbs of copper. In order to put this proposed operation into perspective the tables below compare it with Bougainville, Gibraltar and Freeport Copper.

Table 1 Some comparative ore reserve statistics

	Reserve tonnage (mt)	Copper Grade (%)	Copper Contained (mt)	Gold Grade (oz/t)	Gold Contained (m ozs)
Bougainville	710	0.40	2.84	0.015	10.65
Gibraltar	360	0.37	1.33	.	.
Freeport Copper	196	1.59	3.12	0.035	6.86
Continental Gold*	200	0.30	0.60	0.025	5.00

* geologic reserve

Table 2 Some comparative financial statistics

	Number of shares (m)	Share price (US$)	Market cap ($m)	Market cap/ ton copper reserves ($)	Market cap/ oz gold reserves ($)
Bougainville	401.0	1.64	658	232	61.3
Gibraltar	12.0	8.00	96	72	.
Freeport Copper	42.6	14⅝	677	282	53.4
Continental Gold	8.0	4.20	34	56	6.7

It must be remembered that Continental Gold reserve figures are geologic reserves and it will not be until further drilling is completed and a pit design finalised that mineable reserves are ascertained. Nevertheless, on the above rough comparative basis, reserves stand up well. Valueing reserves on a market capitalisation basis shows that both Bougainville and Freeport Copper are similarly rated in terms of copper and gold. However, Gibraltar is valued much less and the reason for this must be to do with costs of production and the fact that there is no gold content in the reserves. Continental Gold compares fairly with Gibraltar on the copper criteria, particularly considering it is at least three years away from production. However, the gold content is not valued very highly at all and, were the mine to produce at its planned levels, then a significant rerating would have to occur in recognition of the mine as a major North American gold producer. For instance, using the much maligned statistic of market capitalisation per annual ounce of production, gives a figure of $120/oz for Continental Gold. In our Review of North American Gold Shares the lowest such figure for 1992 production was for BIG at $520/oz.

Clearly therefore, if the Mount Milligan deposit lives up to Continental Gold's expectations, then the company's share price will have to be significantly rerated. Continental Gold deserves close attention and the entrepreneurial investor may well be advised to acquire an early position. Nevertheless, we must advise also that the marketability is currently very limited which can be a negative factor if things do not turn out as planned.