

# Top Gold Stocks To Buy And Forget About: International Tower Hill Mines

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## Summary

International Tower Hill Mines' Alaskan Livengood Gold Project contains gold reserves of nearly 9 million toz.

The infrastructure is good and also the permitting process probably won't face any significant obstacles.

The Livengood gold reserves are valued at less than \$10/toz.

The major issue of the project is the initial CapEx estimated at \$1.84 billion.

Shares of International Tower Hill Mines are like a cheap out of the money call option on gold.

Sometimes, it is possible to find a company that hides an astounding potential but for some reason, the potential hasn't been realized yet. In the gold mining sector, the share price of a company holding a huge deposit with great economics may be negatively affected by factors such as an excessive CapEx, some major permitting issues or excessive political risks. In this series of articles, I will present several companies with world-class mining projects that will most probably get into production sometime in the future. However, the exact timeline is hard to estimate and the share price movements may be quite wild. This is why the best strategy is to initiate a small speculative position and virtually forget about it for several years. The first company featured in this series was [NovaGold Resources \(NG\)](#). The second one is International Tower Hill Mines (NYSEMKT:[THM](#)).

## International Tower Hill Mines

Buying shares of International Tower Hill Mines is like buying cheap out of the money call option on gold. International Tower Hill's Livengood Gold Project is located in central Alaska, only 110 kilometers off Fairbanks. It contains measured, indicated and inferred resources of more than 12.5 million toz gold. The problem is that the initial CapEx is estimated at \$1.84 billion. Moreover, the project needs a higher gold price, to be taken into production.



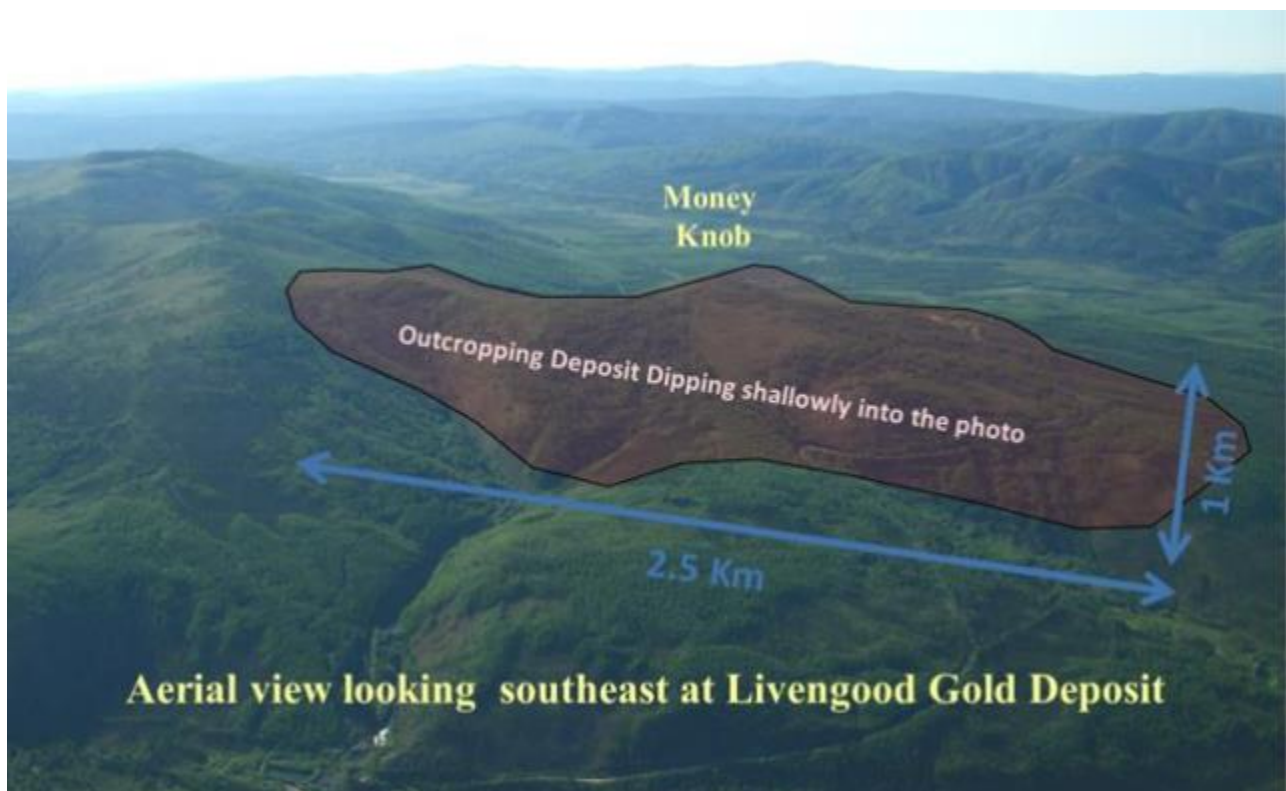
*THM data by YCharts*

The share price, as well as the market capitalization of International Tower Hill Mines, peaked in 2011. When the gold price grew to the \$1,900/toz level and it seemed like crossing the \$2,000 level is just around the corner, the Livengood project was highly valuable. The share price approached the \$11-level and the market capitalization crossed the \$900-million level. However, the [feasibility study](#) (the PFS was skipped) presented some worse numbers, compared to the [2011 PEA](#) (the CapEx, as well as the OpEx, increased notably); moreover, the gold price collapsed. Although International Tower Hill's share price has recovered slightly during 2016, it hovers around \$0.5 and the market capitalization is less than \$100 million right now. As a result,

the company is an interesting option for the gold bulls who seek some leverage to the gold price and don't trust the paper gold market.

## The Livengood Gold Project

The central Alaska-located Livengood Gold Project covers an area of almost 195 km<sup>2</sup> (75 square miles). It lies approximately 110 km (70 miles) to the northwest of Fairbanks. Although International Tower Hill Mines was able to identify only one big gold deposit on this large land package yet, there is the potential for more discoveries in the future, as a big part of the land package remains underexplored. The Money Knob deposit contains measured & indicated resources of 11.46 million toz gold at a gold grade of 0.68 g/t and inferred resources of 1.13 million toz, at a gold grade of 0.52 g/t. Out of the resources, 8.97 million toz are included in the proven & probable reserves. The gold grade of the reserves is 0.71 g/t.



Source: International Tower Hill Mines

The 2016 PFS for the optimised project configuration was able to improve some of the features of the proposed mine. The most important part was

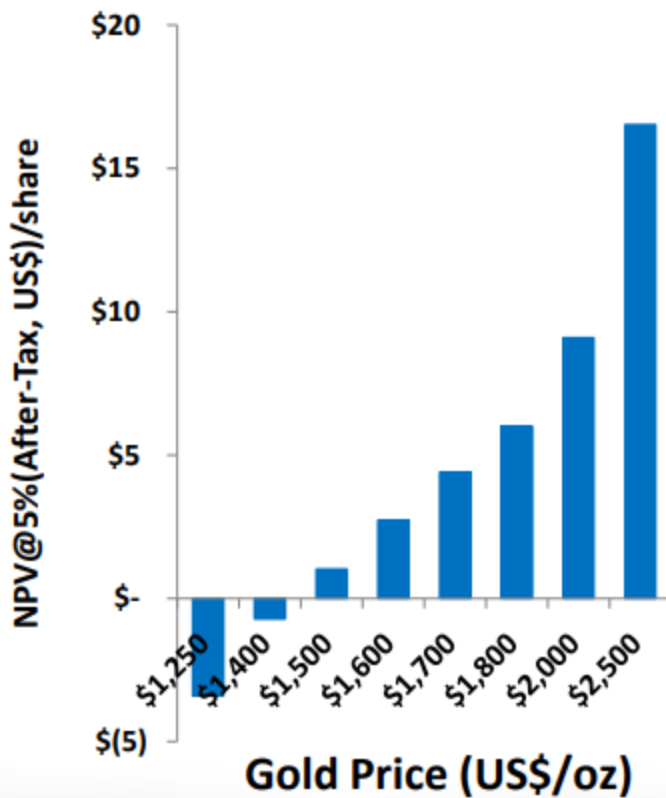
reducing the initial CapEx by \$950 million to \$1.84 billion. Also, the OpEx was reduced from \$10.45/tonne to \$7.48/tonne. The AISC is estimated at \$976/toz. The bad news is that the cost-cutting measures had a negative impact on the production profile. The 100,000 tpd operation was reduced to a 52,600 tpd operation. As a result, 6.8 million toz gold should be produced over a 23-year mine life, which means 295,000 toz gold per year on average. Over the first 5 years, the average annual production should climb to more than 378,000 toz gold. It means that not only the daily throughput rates but also the annual gold production volumes have declined approximately by 50%, compared to the original plan.

The problem is that given the average annual production that is relatively low considering the high initial CapEx and the high AISC, the projected after-tax NPV(5%) is highly negative at the current gold price. At a gold price of \$1,300, the after-tax NPV(5%) is negative \$404 million and the IRR is 1.8%. This is the main reason why the market value of the company is less than \$100 million.

### **An out of the money call option on gold**

At the current gold price, the project is uneconomic. However, the situation improves notably at a higher gold price. The after-tax NPV(5%) attributable to one share of International Tower Hill Mines is negative right now. At a gold price of \$1,300/toz, it is negative \$2.5. However, it grows notably along with growing gold price. At a gold price of \$1,750, it is around \$5 and at a gold price of \$2,000, it is approximately \$9. It means that if gold price grows by 54%, the NPV attributable to one share of the company grows by 460%. It is quite a nice leverage.

## NPV/Share (US\$)



Source: International Tower Hill

### Mines

At a gold price of \$1,300, an average annual production of 295,000 toz gold and AISC of \$976, the mine should generate annual free cash-flow of \$95.58 million. At a gold price of \$2,000, it should be \$302 million; i.e., a 54% gold price growth should lead to a 216% growth in free cash flow. Once again, a very nice leverage.

### What's next?

It will be a long way for the Livengood mine to get into production. At the current gold price, a positive construction decision is highly improbable. It will most probably take gold price north of \$1,500/toz for the project to start moving more quickly. The management believes that further optimisation

should help to add several hundred million to the NPV. However, it must be proven by a new feasibility study first.

Also, the permitting process hasn't started yet. Although various programs that should help to support the future permitting process are underway, the company is still several years away from obtaining all of the necessary permits. The good news is that the permitting should be relatively easy, as there is no information about a meaningful opposition. Moreover, the state of Alaska has designated the surface land in the Livengood area primarily for mining.

Given the size and financial strength of International Tower Hill Mines, the company most probably won't be able to develop the mine on its own, unless the gold price climbs back to the record levels. The most probable scenarios are that the deposit will be developed as a joint venture with a strong partner, or that International Tower Hill Mines will get acquired once the gold price reaches a certain level and the Livengood project starts to attract the attention of bigger gold miners.

Another problem is that as of June 30, the company held [cash & cash equivalents](#) worth only \$4.5 million. As a result, an equity financing is inevitable in the near future. The company burns approximately \$1.6 million per quarter. It means that a private placement will probably take place before the end of this year. But the cash burn rate will increase after the company starts the works on the feasibility study and permitting. If International Tower Hill Mines decides to make it on its own without a partner, it is possible to expect that it will need to raise at least \$20-30 million over the next two years. At the current share price, the company would have to issue approximately 40-60 million new shares. It means to dilute the current shareholders by 25-37%.

## **Conclusion**

International Tower Hill Mines provides a significant leverage to growing gold prices. Its Alaskan Livengood Gold Project contains reserves of 8.97 million

toz gold. At the current market capitalization of \$87 million, the reserves are valued only at less than \$10/toz. It is a very low number compared to International Tower Hill's peers. The problem is that the project carries also some notable risks. A new feasibility study hasn't been completed yet, the permitting process hasn't started yet, the company has only limited financial resources and share dilution is inevitable. Moreover, given the economics of the project and the initial CapEx estimated at \$1.84 billion, it will take gold price at least above \$1,500/toz for the market to start to take International Tower Hill Mines seriously once again. However, in this case, the rewards for the shareholders will be counted in hundreds of percent. Shares of International Tower Hill Mines are like an out of the money call option on gold. The potential gains are high, however, the risk is high as well. For the risk tolerant gold bulls, this company is worth considering.

**Disclosure:** I/we have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours.

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