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Lundin Gold's Ecuador project has good attributes, reckons broker Eight Capital

Broker Eight Capital is upbeat on miner Lundin Gold Inc (TSE:LUG) and its Fruta del Norte (FDN) mine in Ecuador, now under construction.

Analyst Craig Stanley, back from a site visit, repeated a 'buy' on the stock and targets C\$7.30 a share, reduced from C\$7.75 previously.

Shares are currently around the C\$5.08 mark.

Currently, soft tunnelling at the project has advanced about 23m in the first decline and 7m in the second, and the transition from soft tunnelling to hard rock development is expected to begin by the end of the year.

The firm has ordered long-lead time process plant equipment, with process plant detailed engineering expected to be completed in the fourth quarter of 2018.

Stanley said the broker continues to believe the Ecuador mine possesses attributes that could make it either a cornerstone asset for the next mid-tier producer, or a potential acquisition target of mid to large cap gold producers.

This is down to its annual production of more than 300,000 ounces per year, a long mine life (over ten years), along with deposit and regional-scale exploration potential.

The broker reckons a further US\$700mln of funding is required to fund the project to production, including US\$350mln in debt and US\$350mln in equity.

It expects a bank syndicate for debt financing to be announced by late 2017 and an equity raise in the first half of 2018.

Eight Capital's valuation is based on one times' net asset value of \$7.30 a share, calculated at Eight Capital's long-term gold price of US\$1,300 an ounce.

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