Don Durrett Shares His Checklist for Picking Mining Stocks

26 MIN · YOUTUBE · HTTPS://WWW.YOUTUBE.COM/WATCH?V=ZCBOJ2XRZEU
https://www.youtube.com/watch?v=zCboj2XRzEU

SUMMARY

Don Duret presents a detailed guide on how to gain an edge in investing in gold and silver mining stocks. He emphasizes the importance of various factors such as property quality, management experience, financial health, and market conditions to identify promising mining companies.

- *Focus on high-quality properties; companies with multiple properties reduce risk.*
- *Evaluate management teams based on experience and past performance; categorize them into elite, mid-tier, and high-risk.*
- *Assess financial health by looking for strong balance sheets, ideally with over $100 million in cash and no debt.*
- *Prioritize companies with strong margins and low costs to ensure profitability.*
- *Consider the exploration pipeline; companies should have plans for growth and development.*
- *For developers, a strong path to production and a solid project plan are crucial.*
- *In exploration, seek companies with significant undervaluation and excellent discovery holes.*
- *Overall risk-reward assessment is essential; aim for investments with high upside potential (5-baggers or more).*

[music] >> Hey everyone, Don Duret, Gold Stock Data, doing another segment for stocks to watch. I usually do a single stock and analyze it, but today I'm going to do something special. I'm I'm actually going to give you a a presentation, a PowerPoint presentation. I think it's useful, so I'm going to share my screen. It's called how to get an edge buying gold and silver miners.

I believe that you can get one. You can get an edge that really the only main factor is the price of gold and silver, and we try to take everything else out of the equation as much as possible. So, let's go ahead and start it up. This is my book. If you guys [clears throat] haven't read it yet, it's basically a textbook. It's about 300 pages long. It's the 12th edition. And now it's it says a complete guide with a focus on mining stocks, but it's kind of a focus on mining stocks, I think.

But, very useful information. This is my website, Gold Stock Data, which I usually show you guys when we go in and analyze a stock. Also, you can follow me on X at Don Duret. You can also join my community, Gold and Silver Mining Stocks. Okay, producer's checklist. So, the first thing that you want to look for is the properties. It's very important that they have a quality property. This is one of the ones This is where you can make mistakes.

If especially small small gold miners, even small silver miners, the properties aren't good enough quality where you have an edge. So, the better the the quality, the better. And it's also better to have two properties than one, because if one property goes offline, they have that secondary property for cash flow. So, single property companies add more risk. Grade recovery rate, mine life economics, MPV, CAPEX, ASIC, IRR.

I can't really I don't really have time to go over each one of those. What is good, what is bad? That's something you have to learn over time. If this was a 1-hour presentation, I could go over each individual data point. I'm tempted, too. Location issues. Ideally, you want a company that's in already in a mining district. If it's already in a mining district with existing mines, the location risk drops dramatically. High taxes, high royalties can prevent companies from being highly valued cuz investors aren't as interested in that. So, the combined taxes and royalties can come into play.

Yeah, I like to see it 40% or below. Once you get above 40%, it starts to get a bit high. Ideally, you'd like to see 25% or less. But, even up to 40, I it's kind of doable. Total taxes and royalties. 30's kind of the sweet spot. 25's very good. And 40's like high, but anything above 40's kind of a problem. Permitting issues. So, this is all about location. Some locations are easier to permit than others. Like, start to finish, we're starting to see some areas that are extremely long term. I mean, we're looking start to finish 7 years, 5 to 7 years from start to finish is in some areas. Like, Montana. It depends also depends on the land. If it's state land, private land, or federal land, it's more difficult.

Politics, of course, comes into an issue and then infrastructure issues. So, you Over time, you get better feel for if the location is a problem or not. Again, if it's in a mining district, that's a good thing. Financing issues, you know, some companies it's it's easier for them to raise money than others. So, can come into play if smaller smaller company, smaller producer, how easy it is to raise money. So, if a company has a bad balance sheet, can they raise money? If not, they can get into trouble.

It's really the ability to raise money. Management. So, here, you know, we're looking for experience. We're looking for past execution. And, you know, how well they they do. One thing for management teams, I like to put them in buckets. So, the top bucket is is the elite bucket, and most of your majors, nearly all your majors, are kind of in that group. And then, you have the big mid-tiers. And and those are kind of the elite group. And then, below that, I have what kind of the the companies that are trying to become elite. They're not quite there yet, but they're trying to come there.

And then, below that, are kind of quality management teams, but they have they have some they have potential, they have some work to do. They're not close to elite yet. And then, below that, you have the high-risk management teams, which And so, I like to just kind of put them into buckets, so I kind of know and we know which companies we're kind of gambling on, which ones we have confidence in. So, to find out the management team, you want to see what they're doing as far as like marketing the company. Watch the company presentations, you know, read their backgrounds, watch any CEO interviews, and then watch their execution.

Valuation. This is all up for me, this is all about current value the current market cap versus the potential future market cap. What kind of upside does it have? And then the chart can come into play, too, because a company can really run hard. You go you look at the chart, how much more can it run, kind of thing. So, the chart comes into play. And for producers, I'm always looking for five-baggers or better. If I I'm you know, three-baggers are kind of a no-go zone for me. Four-baggers are marginal, depending if it's a growth stock.

If it's a growth stock, then I'm okay there. Uh the balance sheet. So, ideally, I I asked put the ability to raise money. That's kind of that financing earlier. We want a company that it doesn't have a debt problem. Ideally, we want no debt. But companies can get into trouble really fast. I mean, a company can have $50 million in cash and no debt and can get into trouble in a single year because they can they can need cash. They can burn through it fairly quickly.

And so, this is something you you get a feel for. A company can have $35 million in cash and no debt and still and be in good shape because they they're not a company that burns through a lot of cash. They they show an ability to generate cash. And so, but ideally, what we want to see is over $100 million in cash and no debt. And we want to see strong balance sheets. And even better than that, I mean, $500 million in cash and no debt is even better, but at least $100 million gives you a bit of a comfort level.

With balance sheets, we're we're always thinking about bankruptcy. We're always thinking about, okay, how much debt do they have? Uh if they run into trouble. So, let's say a company has a lot of debt on their balance sheet and then they have a one mine. That one mine gets into trouble, they can go and they can go bankrupt. But if they have two mines, then they're they they're probably going to be okay. A couple examples, uh Victoria Gold that a single mine. Mine went down, they went into instant bankruptcy. SSR Mining, they had a mine that went down in Turkey and it was down for over 2 years, but they had another mine. They had two other mines and so they were fine. So, you got to be careful of single mine properties.

Cost and margins. So, we want companies that especially now, uh we want we want strong margins uh because the stronger the margins So, right now you want a company around 2,000 for gold miners we want around around $2,000 around 40 to 50% of the gold price. Those are strong. So, we really don't want companies that right now have like $1,000 margins. That's just not cutting it. 1,500 is kind of kind of borderline uh because if a company has really high cost, especially the trend other investors just aren't going to be interested. So, it's going to lag. If the companies have strong margins, they're going to rip and and we we want those. So, margins are important and cost absolutely correlate to margins.

So, cost and margins are almost the same thing. And so, we don't really want a high you know, a high cost company um unless it can be an opportunity if it's a high cost company, but they're but they're giving you guidance for lowering those costs. That's an opportunity. But if a company is just stuck with high cost, stuck with high margins and it doesn't look like they're going to be able to fix it, you know, that's that's a problem. The exploration pipeline.

We want companies to grow. We want them to grow. We want them to grow their production. We want them to grow their revenue. We want them to add mines additional mines. So, the pipeline, those are projects. You know, what projects are they working on? They can be exploration projects, they can be development projects.

Ideally, we want them to be development projects. And a pipeline can be an existing mine. So, an existing mine can have phase one, phase two. You can have open pit then underground. So, it can be the same mine, but the pipeline is just a pipeline to growth and then the exploration potential.

And also we want I like to shark. So, what is a shark? A sharkin is an aggressive company that's going to constantly be looking for additional build on their pipeline or buy new additional mines. Share structure. These are producers that have free cash flow. So, this can become a problem if [clears throat] a company doesn't have a good balance sheet if they're a producer. Because if they don't have a good balance sheet, they can just keep diluting you. But, if they have a good balance sheet, then even if they have a lot of shares, even if they have a billion shares, it's not necessarily a problem because they're not diluting you. So, the key here for for share structure is the it it comes in tandem with that balance sheet. But, ideally, what we want to see is a tight share structure, say 100 million shares, 150 million shares with a good balance sheet.

When you see that, that's very potent. It creates a lot of leverage. It's basically what you call it a tight structure. And the shares can really can really balloon quickly when you have that. So, we we like tight share structures, but it's not a you know, it's it's a given, but it's not necessarily a problem if a company has 800 million shares, a billion shares, as long as they have strong free cash flow and they don't have a balance sheet problem. Overall risk reward. This is really kind of where you make your decision.

You look at those first nine factors and you decide how much how many you know, how good a company it is just based on the first nine. And that kind of goes into this number 10, this overall risk reward. You know, average, you know, you're probably going to pass on. You're looking for good, very good, or excellent. So, the average and the not so good, you're going to pass on. And so, you know, what is good?

And good is basically an upside of a five bagger or better with growth with all these other nine. And so, you learn over time, you know, what is this overall risk reward? So, I I use two ratings for the overall risk reward. One is the downside and the other is the quality. I use those two to basically identify overall risk reward. So, you really want B+ or better. B+ A- A those are the best risk reward. Now, some B's are fine. If they have a quality of B B- is going to have a high risk. It's It's going to be average of course or maybe not so good.

B's like average, but those B's can turn into B+ is very quickly. They just need to do a little bit more execution. So, don't necessarily be afraid of a B an average stock if it's turning the corner. Cuz a lot of these companies it takes a long time for them to build these mines and turn a corner. Okay, the next one is the developer checklist. This one only has six data points. And you want to be a tough grader on these because the developers have more risk than the producers.

And developers tend to disappoint you. I always say they tend to break your heart. And the reason why is because it costs money to build mines and it takes time and lots lots can go wrong. And we'll talk a little bit about that. So, strong project, this is the exact same thing as the producers. And you you will learn how to identify these. Grade is not as important as the economics. So if the ASIC is in line but it's in but especially what a grade can come into play is a lot of times the economic can be supported by the base metals.

Whereas if you have high grade, you're not necessarily going to need those base metals as support with that ASIC. But grade can play into ASIC, but like in Nevada, you can have low grade oxides and have beautiful economics just on the gold alone. So, the grade also comes into play with the ore like which you know, underground oxide sulfide. Those all come into play. The recovery rates, I tend to like 80% or better. 90% or better is really good. And then 70% is kind of marginal. And then anything below 70% you don't really want to see that. Especially on the main metal.

The mine life, we like to see at least 10 years. So, six is years is short. Eight is marginal. 10 or better is good. Economics. So, we want we want the MPV to be 2X the CAPEX. That's kind of how you determine if an MPV. Also, the MPV versus the market cap. So, you have a market cap of 50 million. You got an MPV of 500 million. You kind of like to that, but you can compare the MPV which is the overall value of the of the project. Kind of the discounted cash flow. And you can compare that to the CAPEX and market cap. And so, you want the MPV to kind of stand out. And then the AISC.

So, you know, we can we can know what the kind of the the average is the kind of the peer levels. And we we want to stay in that kind of close to that. So, right now the the gold the AISC is about 18 1800. And for silver it's about 30. And so, we want to stay in that area. We don't want to go too much above it. And then the IRR. So, we want the IRR to be ideally want to be above 25% at spot prices. At least 25% at spot. Anything below that you're taking on risk. You you might do it for a big project because the spot prices are going to rise here. You're kind of gambling.

The high upside potential. So, I want at least a 10-bagger. The reason why is because things are going to go wrong. So, you need room margin for error. So, I'm I'm very skeptical of three four five, six baggers for on a developer. It's just, you know, maybe seven bagger if I think if I if I like the project a lot, but I'm trying for at least 10. Good location, so I already talked about this and producers, so we don't need to re go over that again.

Strong management team, I already talked about this, but I will say on management for developers that it's difficult to find a development team with a real strong team. The reason why is because they usually the good guys already have producing projects. They get hired on, and so I would say 80% of development teams are kind of a work in progress. There there's a bit of a gamble going on there. That's one of the reasons why developers can disappoint you because they'll have the teams that are going to build these things are not elite, but on occasion we get elite teams, which you get I get excited about that. Like, I think GoGold has an elite team, and so I'm really excited about that. I think Vizsla is a another one. Some of these projects have some really good teams behind them that I'm confident they're they're they're going to build them and have no problem. Discovery Silver, Toromocho Macuchu. Before they did that acquisition in Canada, I was really confident in in Discovery Silver. Some teams have really good teams, but most of them, I would say 80% of them are you Some of they're not elite yet.

They're they're marginal. Some are better than others. So, you have to be careful. For instance, the CEO Some of these CEOs have no experience at building mines. A lot of them are uh finance guys. A lot of them are geologist. And they they have not built and operated a mine before. And so, but what some of these teams, what they do is they'll bring in a mine builder, but they won't give him the CEO job. They'll give him like the COO COO job, and he will build the mine. That's what Vizsla's doing. So, Vizsla's they're bringing in a guy to build and operate the mine. That's okay. It's not ideal.

And I'm waiting for AbraSilver to do that again and do that. They need to bring in somebody to build and operate the mine if if they're going to keep their CEO because he hasn't built and operated a mine. So, there's that. Okay. Path to production. This is probably the one This one and management are the two you got to be really careful with. But, the management teams, they can fix that a lot easier than the path to production. The path to production is the plan.

What is their plan and how well are they told us what they're going to do? If if we don't have a good feel for the path to production, then, you know, the risk goes really, really high. And but when we have a strong idea, if they have a plan in place and all they need to do is execute ABCD, and they're basically tell you, "This is what we're going to do, ABCD, you know, into production." That's what you want to see. And if you don't see it, the risk really goes up. The number five is probably the one where I've I've been disappointed the most.

And the good companies, they kind of know what they're doing, they tell you what their path to production is early on. And kind of the weaker management teams, they don't tell you until, you know, forever. You're just waiting, waiting, waiting, waiting. And there's, you know, and so, you can really tell that the ones that really want to build the mines, they get that plan all set up because the best way to be successful is to have a plan.

>> [laughter] >> If you don't have a plan, you're just winging it. You don't want to wing it. You want to You want to have an idea You want everybody to be on the same page. This is what we're going to accomplish. And the last one is the strong insiders. And this is another one that'll burn you every time. If If they don't have at least 25%, especially at least 20%, there's a really good chance they're going to sell this project before they get to first pour. I've seen it, you know, 80% of the time if they don't have that they're going to sell the project.

So, I will gamble on a few but by and large is I'm I'm looking for that. And so, if you can find developer that checks all six of these boxes. And one of the things you can do is you can actually rate each box with a number of five through nine. You wouldn't necessarily give a company a 10, but nine is, you know, the best. And you want to see all seven, eight, and nines on all six.

You don't want to see any fives and sixes. And if there's any, you know, there's a maybe there's a project you absolutely love, but the path to production is only a five, we just don't have a path, you might gamble on that one, but you don't want to gamble on too many. But if if you can find one that has all eights and nines and the one I'm going to do next month, I do these stock to watch once a month uh is all eights and nines. And so, okay, so the last one is the explorers.

So, I only have two rules for explorers. Now, the one thing I've learned is that exploration stocks are not necessary for your for your portfolio. You don't necessarily need to own any explorers to be a successful speculator in this space especially in a bull market. And the reason why is because in a bull market we're basically following the price of gold and silver higher. And producers and developers, especially developers that are going to be in construction within three years are going to have are going to be highly elastic to the gold and silver price.

And since they're highly elastic, that's kind of where you want to be. The developers are not elastic to the gold and silver price unless it's an optionality play. But if it's an early drill story where they don't have a big deposit yet, they're not elastic at all. They just need good drill results. And so, that's why I say you're in a in a bull market, you don't need to gamble on the drill bit. Now, the thing that's great about exploration stocks is they always work.

So we have these cycles in gold and silver where gold goes up, gold goes down. And it's exploration stocks, they don't care. All they care about is the drill bit. So you can always invest in exploration stocks. So they work great in a down cycle. So you want to do In down cycles, you want to do exploration, you want to do royalties. But in a bull market, you can avoid them, I think. So but in a bull market, you can use my two rules.

And I wish I would have known these two rules when I started out. I created these rules, by the way. Rule number one is their gold or silver in the ground needs to be valued significantly below the market value. These are called optionality plays. So what we're looking for is we want about 1% of spot. So gold is at 4,500, 1% would be $45 in the ground. Ideally, we want half of that, which would be about $20 in the ground. And if you can find $10 in the ground right now, that's fantastic. But that's about you don't really want to buy over over that 1%. You know, anything is $50 or above, it's not a really good optionality play unless they're going to find more. So if you find one that's 50, 60, $70 in the ground, but they're going to double the size of the deposit, you're actually paying 25, 30 in the ground. So that makes sense. Thing is beautiful about optionality plays, when you buy well below the market place market value, you just sit back and get paid. You're not going to lose money when you're buying well below the market, especially in a bull market. So these optionality plays can be very lucrative.

And especially in a bull market mania phase where the value on the ground can actually go bonkers. We saw a couple deals in the last month, one for $400 an ounce in the ground for gold and one for $500 an ounce in the ground for gold. So, if you're buying it 50, that's 10x. If you're buying at 20, that's 20x. So, the upside on these optionality plays can be very, very significant. The one caveat on these optionality plays is dilution. So, if these companies, you know, you buy at 20, 30, 40 dollars in the ground for gold and then they dilute you, especially if they keep diluting you and then they don't find more, then your upside's going to get reduced. So, you got to take that into consideration. Okay, rule number two is a company is early in the Lassonde curve, plus it has an excellent discovery hole. So, I'm going to show you that. So, it's early in the Lassonde curve, that means it's cheap.

The Lassonde curve goes up and down and up and down. And so, it starts at the very bottom and it goes up, right? That's the share price. So, Lassonde curve is the initial surge, the first initial surge up is the discovery. An early in the Lassonde curve is it's cheap. It's basically has a market cap under 50 million dollars. You want to buy these early drill stories early in the Lassonde curve, plus they have an excellent discovery hole. This is where people make mistakes, this is where I made a mistake. Is I'm betting on these exploration plays that are early in the Lassonde curve, but they don't have an excellent discovery hole.

You need both. And so, what is an excellent discovery hole? So, that's the gram meter. So, we take the gram grams per ton times the meter. And so, you're like let's say it was 10 grams and it was 10 meters, that would be 100. That's not good enough. We need 10 meters at 20 gram 20 grams at 10 meters. That would be excellent. We're looking for excellent or better. And if you find one that's 200 to 250, that's marginal.

What we really want is 300 plus. That's what we're really looking for. And every once in a while you get lucky and these companies companies are have a market cap say 25 million and they get a grand meter hole over 500. That's what happened with Snowline. That's what happened with Goliath, Southern Gold over in Australia. And so we see some of these companies low market cap to these big drill holes. Those are the ones you get the edge. So everything about this presentation is how to get an edge.

And so I decided I was going to share this with you today because these are kind of you know everything that I've learned. This presentation is going to be very useful for a lot of you. These are kind of the nuggets. So take this and then read my book and combine it together. And you have you really need to read my book twice. Once is kind of the warm up. The second one's when it's going to sink in.

And I wouldn't take notes the first time. Just read it the first time. Then go through it the second time and the second time get your pen out and and put some notes, dog tag it or whatever. Put a posted note on the important pages. You're going to learn a lot and I'm here to help you guys through this bull market. And we're this bull market we're getting really really close. We're early in innings here but once Core and Hecla double in value it's it's kind of going to be over for the easy 10 and 20 baggers. Now you're going to be looking at five and 10 baggers and then they double again and now you're looking at three and five baggers. This next two to six months I think is going to be kind of the the last chance if you will to kind of play with these strategies if you will for building a portfolio. And my book goes all into that. How to build your portfolios. You're going to learn a ton.

And that's it. We'll leave it at that and I'll see you guys next month. >> Mhm.