



Know when to hold-em!  
 Know when to fold-em!  
 Know where to set stops!  
 Know when to run!  
 Never count your portfolio  
 Until the sells are done..

[rhstruthers@gmail.com](mailto:rhstruthers@gmail.com)

Ron Struthers Substack

[Monthly subscription US\\$19.99](#)

A one month favourable report on inflation does not make a trend, but energy prices are a bit weaker so far in November so we could get another low CPI reading for November. Regardless, I am expecting good markets until year end with a typical Santa Claus rally. Gold often has some year end weakness, but late December and into the New year gold usually does well. If interest rates continue to ease, that will also be bullish for gold.



I marked the important areas on the chart, so a break above \$2020 would be very bullish and a test of \$2130 highs would be next. Also would not want to see a break below \$1920. It is likely we could go sideways for 4 or 5 weeks and an eventual break to the upside will happen.

There is one gold producer that I believe has been over sold, and a little weaker gold price will probably not be that negative for the stock. I have followed Torex Gold for many years, but always felt the stock was high and the valuation was high, but it was deserving. I kept watching for a day I could buy the stock on sale and that day has arrived. Torex was \$24/\$25 in May and is now around \$13. The last several months, negative factors have been way over done with the miners.

**Torex Gold TSX:TXG**

**52 week trading range \$10.47 to \$35.41**

**Recent Price - \$13.00**

**Shares outstanding – 86 million approx.**

Torex is an intermediate gold producer based in Canada, engaged in the exploration, development and operation of its 100-per-cent-owned Morelos property, an area of 29,000 hectares in the highly prospective Guerrero gold belt located 180 kilometres southwest of Mexico City. The company's principal asset is the Morelos complex, which includes El Limon Guajes mine complex, the Media Luna project, a processing plant and related infrastructure. Commercial production from the Morelos complex commenced on April 1, 2016. Torex's key strategic objectives are to optimize and extend production from the ELG mine complex, derisk and advance Media Luna to commercial production, build on environmental, social and governance excellence, and to expand through continuing exploration across the entire Morelos property.

## TOREX OVERVIEW



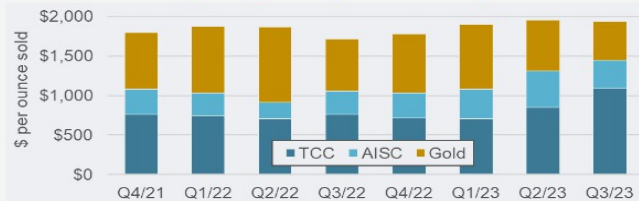
Intermediate Gold & Copper Producer		
<b>C\$1.1B</b> market value <sup>1</sup>	<b>0.50x</b> P/NAV <sup>1</sup>	
Significant Size & Scale		
<b># 2</b> gold producer in Mexico in 2022	<b>474 koz</b> gold produced in 2022	
Large & Growing Resource Base		
<b>~4.9 Moz</b> AuEq P&P at 3.98 gpt <sup>2</sup>	<b>~7.5 Moz</b> AuEq M&I at 4.86 gpt <sup>2</sup>	<b>~2.1 Moz</b> AuEq Inf. at 4.15 gpt <sup>2</sup>
Healthy Margins & Strong Balance Sheet		
<b>\$1,008/oz</b> AISC in 2022 <sup>3</sup>	<b>\$501M</b> liquidity including \$209M of cash <sup>4</sup>	

Torex has been producing about 440,000 to 470,000 ounces gold per year. Their relative high grade of over 4 g/t for open pit mining has provided very good cash flow and profits. However, in Q2 and Q3 they were mining lower grade stock piled ore because the reserves in their Guajes pit were running out and they were doing waste stripping on the next pit, called El Limo. This resulted in lower average grades mined of just 2.47 g/t in Q3 and of course resulting in lower cash flow and profits. However this stripping on El Limo is done so Q4 will see a big rebound in grades along with lower costs.

Q4 expected to be the strongest quarter of the year



All-in sustaining margins expected to improve in Q4



EBITDA set to rebound in Q4 with strong production



Quarterly free cash flow set to turn positive in 2025



These lower grades and stripping of the new pit should have been no surprise to the market as Torex broadcast their plans quite clearly. It seems markets are not so efficient anymore and the stock over reacted to the down side on what was a normal case of mine development. The stock should rebound as normal grades and production commence in Q4. The company commented on their October production to indicate grades were back to normal. October gold production of 41,450 oz, which included 105 hours of planned maintenance in the process plant at the start of the month. With mining now into higher-grade benches in the open pit, the average gold grade processed during October averaged 4.05 grams per tonne (gpt) compared to 2.47 gpt during Q3.

A big focus on growth is their nearby Media Luna deposit that will replace production from the ELG open pits and extend mine life out to at least 2033. This slide from their presentation shows Media Luna in detail. Ore will be shipped to the processing plant by a tunnel that should soon be completed. Torex expects to be producing ore from Media in late 2024.

## ADVANCE & DE-RISK MEDIA LUNA

Breakthrough of tunnel on south side of Balsas River anticipated by year-end<sup>1,2</sup>



- › Guajes Tunnel north access advanced ~5,395 m as at the end of October
  - › Average daily advance rate of 7.1 m year-to-date
- › Advance from the south was ~2,455 m as at the end of October
  - › Average daily advance rate of 3.4 m year-to-date
- › Approximately 600 m of tunnelling remained as at month end
  - › On track for breakthrough in late December, 3 months ahead of schedule
- › 20 active headings in development (11 in Media Luna Lower and 9 in Media Luna Upper)

On November 16, Torex announced excellent drill results from their 2023 drill program. As of the end of September, approximately 54,600 m across 235 holes had been drilled as part of the 2023 ELG brownfield and near-mine exploration and drilling programs, representing 96 per cent of the planned metres for the year. Year to date, assay results have been received for 55 per cent of the total holes drilled. Here are some examples of very high grade results that I put in bold.

.El Limon Sur trend:

- Drill hole LS-293 returned **20.74 grams per tonne gold equivalent over 4.6 metres**, being the first subsequent hole of a program at El Limon Sur Deep zone following the previously reported high-grade intercept from drill hole LS-220 (**88.92 g/t AuEq over 14.5 m**). LS-293 confirms the continuity and extension of the high-grade gold mineralization at El Limon Sur Deep for another 100 m at depth.
- Advanced exploration drilling where El Limon Sur trend intersects La Flaca fault returned multiple economic intercepts, including **11.75 g/t AuEq over 22.9 m in LDUG-239**, **11.55 g/t AuEq over 14.9 m in LDUG-290**, **10.03 g/t AuEq over 14.4 m in LDUG-296**, **11.71 g/t AuEq**



over 8.9 m in LDUG-277, 11.36 g/t AuEq over 8.7 m in LDUG-308 and 8.13 g/t AuEq over 12.4 m in LDUG-280. Given the results to date, this area represents a potential new mining front within ELG underground.

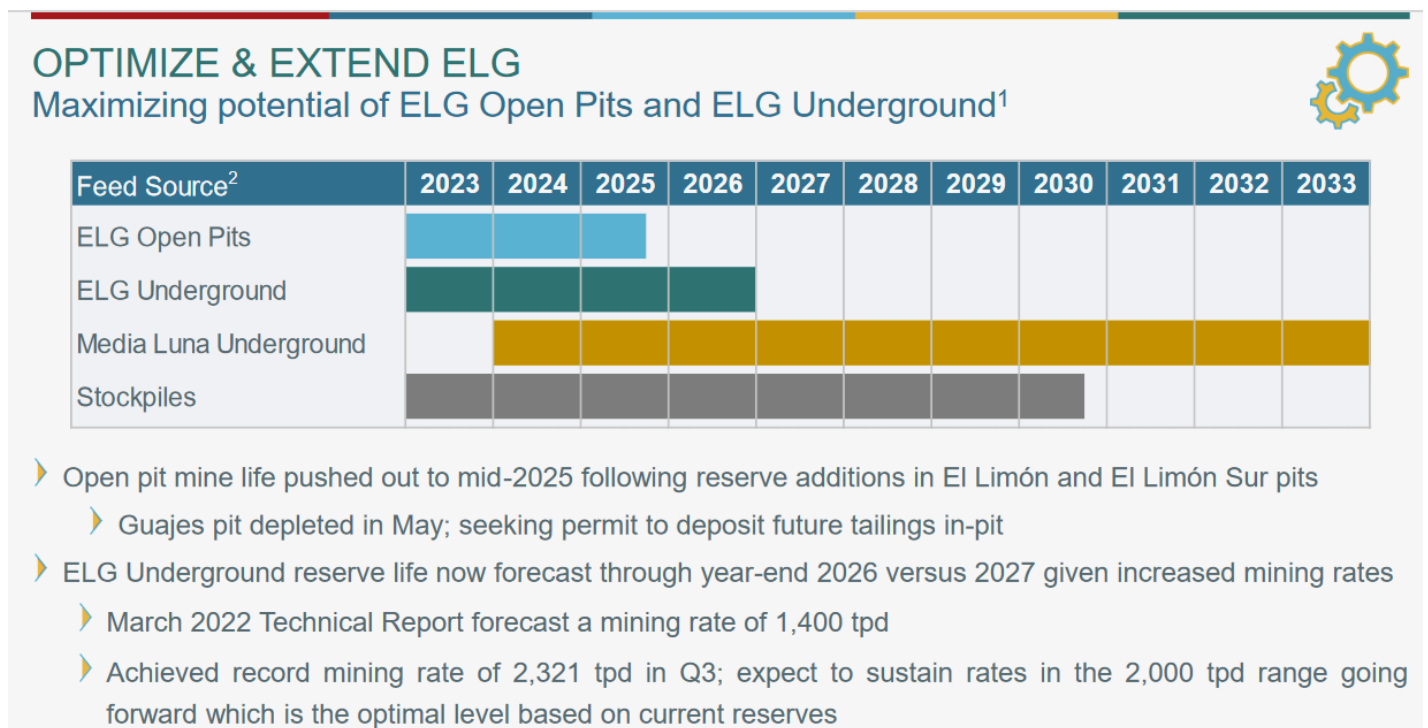
El Limon Deep trend:

- Infill and stepout drilling continues to extend mineralization at depth, with notable high-grade intercepts including **33.91 g/t AuEq over 9.1 m in LDUG-256 and 35.81 g/t AuEq over 4.8 m in LDUG-268.**

Sub-Sill trend:

- Infill drilling returned high-grade intercepts within the extension of the Sub-Sill zone including **19.45 g/t AuEq over 12.1 m and 21.32 g/t AuEq over 4.0 m in SST-312, and 23.32 g/t AuEq over 4.7 m in SST-313.** Additionally, two holes drilled 250 m north of La Flaca fault encountered mineralization, opening the exploration potential for additional mineralization to the north.

Here is a good snap shot of their development and mining plan of the various deposits



### Financial

Torex has a strong financial position with no long term debt. They extended and increased the available credit facilities with a syndicate of international banks in the quarter, now providing a total of \$300.0-million in available credit maturing in 2026. The quarter closed with net cash of \$188.3-million, including \$209.4-million in cash and \$21.1 million of lease-related obligations, no borrowings on the credit facilities of \$300.0-million and letters of credit outstanding of \$7.9-million, providing \$501.5-million in available liquidity.

Media Luna expenditures totalled \$98.7-million during the quarter (YTD -- \$242.3-million), with a remaining project spend of \$507.5-million. Quarterly cash flow in 2024 will also be significant help.

## Summary

Torex has a very solid mine plan and the Morelos property with very good gold grades is a real cash cow. The production and profit side in Q2 and Q3 was planned and I do not see any reason why they would have to go back and use so much lower grade stock pile in the next several years.

The markets over reaction is a good opportunity to buy an attractive mid tier gold producer at a great price. The current market cap is C\$1.11 billion or US\$ 816 million. Torex currently has 7.5 million ounces gold equivalent at a very good grade of 4.86 gpt. Assuming their \$200 million plus cash will be used to develop Media Luna, the market is putting a value on their M&I gold resources of only US\$108 per ounce. Quite low for a very profitable producer. **I expect they will have cash flow of at least C\$300 million in 2024, so the stock is trading at just 3.5 times 2024 cash flow. To compare, Alamos Gold is trading at 23 times cash flow.** Alamos is producing about 500,000 ounces per year so a similar sized company.

I see Torex as a very attractive take over target as well, especially for another Mexican producer like Alamos Gold. The chart looks very good too as the stock has come down to long term support around \$12. There is a possibility of further weakness if gold sells off some and possibility of tax loss selling. In cases like this, I like to buy half my intended position now and the rest on a drop, as an example 500 shares around \$13. If the stock dips down to \$12, I will buy the other 500 (half) at \$12. This way you get a better average price and if the stock does not dip down, you at least have your half a position to ride the upside.



Call options on the stock do not have much liquidity for March 15, 2024, the month I would go out to. However, I have found if you bid between the bid and ask price, the market makers will usually fill your order.

I like the March 15, 2024 \$13.00 Call for about \$1.50

*All forecasts and recommendations are based on opinion. Markets change direction with consensus beliefs, which may change at any time and without notice. The author/publisher of this publication has taken every precaution to provide the most accurate information possible. The information & data were obtained from sources believed to be reliable, but because the information & data source are beyond the author's control, no representation or guarantee is made that it is complete or accurate. The reader accepts information on the condition that errors or omissions shall not be made the basis for any claim, demand or cause for action. Because of the ever-changing nature of information & statistics the author/publisher strongly encourages the reader to communicate directly with the company and/or with their personal investment adviser to obtain up to date information. Past results are not necessarily indicative of future results. Any statements non-factual in nature constitute only current opinions, which are subject to change. The author/publisher may or may not have a position in the securities and/or options relating thereto, & may make purchases and/or sales of these securities relating thereto from time to time in the open market or otherwise. Neither the information, nor opinions expressed, shall be construed as a solicitation to buy or sell any stock, futures or options contract mentioned herein. The author/publisher of this letter is not a qualified financial adviser & is not acting as such in this publication.*