RBC Cuts Gold Estimates – Shares Dive, Again

Description

The spot price of gold is currently up on the day, however, many of the mining stocks are not. A report released by RBC this morning probably has something to do with this.

RBC now expects gold to trade between $1,300/oz and $1,500/oz for the balance of 2013 and is sticking with its $1,400/oz long-term assumption.

Although this range represents their best guess for the remainder of the year, they see risks skewed towards the downside. This qualifier came with four reasons:

1. Continued liquidation of gold ETF holdings.
2. Liquidation of COMEX speculative long positions.
3. The potential for Eurozone central bank gold liquidation.
4. Seasonally weak demand in June/July.

Target prices reduced but potential gains significant

This reduced commodity price deck had a dramatic impact on the target prices affixed to the gold producers that RBC covers. On average, Tier I producer targets were cut by 26%, Tier II by 35%, and Tier III by 27%.

Talk about advice investors could have used last week!

Kinross (TSX:K,NYSE:KGC) was the Tier I that experienced the greatest reduction. Its target now sits at $7, a 36% decline from the previous $11.

According to RBC, **Barrick Gold** (TSX:ABX,NYSE:ABX) offers the most upside in the group with a target of $25 which represents a potential gain of 35%. The average gain RBC expects out of the Tier I's is 32%.

Allied Nevada (NYSEMKT:ANV) took the biggest cut of the Tier II's that RBC covers. Its target moved from $34 to $19, which still leaves the stock with a potential gain of 74% from its current price. **Detour Gold**

(TSX:DGC), with its $19 target, offers a similar potential return. Tier II's are expected to provide an average return of 46%.

Tier III is where the magic is really expected to happen as an average return of 52% over the next year is targeted. The stock with the most upside of all is **Argonaut Gold** (TSX:AR) with an $11 target and upside of 81% from its current price.

Foolish Takeaway

Nobody knows what tomorrow holds for the price of gold, let alone the balance of the year. It's clear however that if the commodity can even just hold steady, there are some serious gains in store for gold producer stocks – according to RBC.

Investors have relied upon gold as a way to navigate a challenging market. This clearly hasn't worked. Dividend stocks however continue to prove themselves through thick and thin. In our special report "**13 High Yielding Stocks to Buy Today**" we have profiled a collection of U.S. companies that will have your portfolio swimming in dividends. This report can be yours, FREE, by simply **clicking here**. You're just **one click** away from dividend nirvana!

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Fool contributor Iain Butler owns shares in Barrick Gold and Argonaut Gold. The Motley Fool has no positions in the stocks mentioned above.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ABX (Barrick Mining)
2. TSX:AR (Argonaut Gold Inc.)
3. TSX:K (Kinross Gold Corporation)

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Date
2025/07/21
Date Created
2013/04/19
Author
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