Hiding in Gold Miners with No Debt, Loaded with Cash and Sharing the Spoils

Description

Gold has been weak for the better part a year now and that weakness has taken a serious toll on the stock prices of the gold miners. However, recently gold has shown a little strength and may be stabilizing. Despite this recent uptick in the price, many still believe gold has much lower to go.

That being said, if you want to step into the volatile world of mining stocks, what can you do to limit your downside if gold begins to slide again? If you believe gold is heading higher over the long-term, but risks for lower prices may still exist, investing in miners with no debt, plenty of cash and paying you to take a ride might be a good place to hide in this volatile market.

Steady as she goes

In turbulent markets, the best stocks are those that tend to avoid the wild swings of their counterparts. **Alamos Gold Inc.** (TSX: AGI) does just that. While many mid-sized gold stocks carry a beta well over 1.0, the beta of Alamos is a low 0.755. Not bad considering two similarly sized gold companies by market cap, Detour Gold Corporation and B2Gold Corp., carry a beta of 1.89 and 1.31, respectively.

In addition to a relatively steady stock price, Alamos is currently debt free, pays a dividend and has a cash hoard of nearly $490 million which is equal to 27% of its market cap. In addition, to its strong balance sheet, the board of Alamos recently authorized a share buyback of up to 10% of its public float and it is currently unhedged to the price of gold.

The company's primary mine is Mulatos Mine located within the Sierra Madre Occidental Mountains in Mexico. There are additional exploration properties in Turkey. The company is currently expected to produce between 180,000 and 200,000 ounces of gold in 2013 at an all-in cash cost of between $785 and $825 per ounce of gold sold.

Alamos recently put part of its bank account to work when it agreed to acquire **Esperanza Resources Corp**. (TSX: EPZ) for $0.85 per share in an all cash deal worth $69.4 million. Esperanza is the owner of an advanced stage gold project located in Morelos, Mexico with measured and indicated resources of 1.5 million ounce of gold and 16 million ounces of silver.

Go west young man, West Africa that is

SEMAFO, Inc. (TSX: SMF) currently operates three gold mines all of which are located in West Africa. The Mana Mine, the company's flagship located in Burkina Faso, represented 70% of revenues in 2012 producing 42,700 ounces of gold at a total cash cost of $709 per ounce. The company expects Mana to produce between 153,000 and 168,000 ounces in 2013 at a total cash cost of between $805 and $855.

The company's has two other producing mines. The Samira Hill Mine located in Niger is expected to produce between 23,000 and 26,000 ounces of gold in the first half of 2013 at a total cash cost of between $985 and $1,035 per ounce. SEMAFO recently entered into an agreement to sell the Samira Hill Mine. The Kiniero Mine located in Guinea is expected to produce between 16,000 and 20,000 ounces of gold during 2013 at a total cash cost of between $975 and $1,055 per ounce.

The company is cash flow positive and has $137 million in cash on the balance sheet representing approximately 27% of market cap and no debt. The company pays a semi-annual dividend of $0.02 per share implying a current yield of approximately 2.0%

From the fire into the frying pan

Including **Nevsun Resources Ltd** (TSX: NSU) may be a bit of a red herring as it is a gold company in transition. The company's primary asset is the Bisha Mine located in Eritrea which borders the Red Sea, Sudan, Ethiopia and the tiny Djibouti. The mine is a 60/40 partnership between Nevsun and the Eritrea government, respectively.

Moving from one depressed commodity to another, Nevsun expects to produce only 110,000 ounces of gold in 2013 after producing 313,000 ounces of gold in 2012. However, 2013 is expected to see copper production commence and produce between 30 and 50 million pounds of copper in 2013 increasing to a rate of 200 million pounds of copper per annum by the first quarter of 2014. After 2013, gold production is expected to be significantly reduced and Bisha will become primarily a copper mine along with smaller amounts of zinc and silver.

The company's balance sheet is clean with $335 million in cash representing approximately 48% of market cap and no debt. The company is unhedged and recently raised its semi-annual dividend to $0.07 per share implying a yield of approximately 4%.

While the company is opportunistically transitioning to primarily a copper miner, management announced that it continues to review acquisition prospects in both the gold and copper sectors. Given the large amount of cash on the balance sheet and low commodity prices make Nevsun one to watch.

Final Thoughts

While there is no guarantee investing in producing gold companies with lots of cash and no debt will prevent investment losses, it does generally provide a cushion when the price of commodities goes south.

Take for example the much higher leveraged **Kirkland Lake Gold, Inc.** (TSX: KGI). Kirkland currently has net debt (net of cash) of nearly $58 million and a total debt to equity ratio exceeding 0.5. The decline in gold has not been kind to Kirkland over the last year as shares have fallen by as much as 82% from their 52-week high and currently sit 74% below this level. Of the companies profiled, only SEMAFO has come close to this level of weakness, as its shares currently sit 58% below their 52-week high.

An even worse performance was turned in by **Allied Nevada Gold Corp.** (TSX: ANV) seeing shares fall by as much as 86% over the last year. Allied Nevada carries net debt of approximately $338.5 million and climbing. The total debt to equity ratio is one of the highest in the industry at .92.

Highly leveraged companies tend to be more volatile than their debt free and cash rich counter parts. When gold is weak, miners carrying high debt loads will likely fall harder, but on the flip side, this leverage can provide tremendous returns when gold is moving higher. It's all about risk/reward.

While the gold sector may be poised for a bounce, one resource that is potentially on the verge of a major move higher is uranium – the key ingredient for nuclear power. **Click here now** to download our special **FREE** report "**Fuel Your Portfolio With This Energetic Commodity**". We think you'll be surprised at how bright the future is for uranium, how far these 2 stocks have fallen, and how quickly they could rebound. **Click here now** for the nuclear ride of your life!

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1. Investing

TICKERS GLOBAL

1. TSX:AGI (Alamos Gold Inc.)

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