



Why Eldorado Gold Corp. Plunged 19% Today

Description

What: On Friday, shares of **Eldorado Gold Corp** ([TSX:ELD](#))([NYSE:EGO](#)) plunged 19% after Greece's new energy minister stated that he is opposed to developing the company's flagship Skouries gold mine.

So what: Eldorado is one of Bay Street's favourite growth stories, and why the stock has consistently traded for a premium. Through acquisitions and mine development, the company has doubled its production and reserves over the past five years. But to keep investors happy (and its lofty multiple), Eldorado must continually find new expansion opportunities.

The Skouries gold mine in northern Greece is a critical part of that plan. The property is Eldorado's flagship project and was a big part of the previous government's efforts to attract foreign investment in the country. However, Panagiotis Lafazanis, an ex-Communist who represents the radical wing of the new ruling Syriza party, could put those plans on ice.

"We are absolutely against it," Mr. Lafazanis told Reuters Friday, "We will examine our next moves on it."

The statement is worrying for Eldorado. The Syriza party has not clarified if it will move to block the project from going ahead. However, it is a sign that the government is sticking to campaign pledges to ward off private investment.

Skouries is among the biggest developments in Greece since the country sank into recession back in 2010. Eldorado wants to expand the relatively small open-pit mine into an underground behemoth that will produce up to 140,000 ounces of gold a year. As part of its plans, the company expects to employ as many as 1,500 people and invest US\$1 billion over the next five years.

But the project has been targeted by local protests. Environmentalists argue that Skouries can't be built without removing at least 180 hectares of forest and depleting a precious aquifer. The government is also worried about the mine's impact on the pristine Halkidiki peninsula landscape that surrounds it.

Now what: In short, today's announcement is just another reason to avoid gold mining stocks

altogether. As I have said over and over again, mining is a horrible business that hardly ever goes as planned. Even if by some miracle the Skouries mine is built, it's so capital intensive that the company will almost certainly not make a satisfactory return on its investment.

Eldorado shareholders now face the possibility that their investment in Greece has been flushed down the drain. Given that shares still fetch a premium relative to other gold miners, it's hard to get excited about this stock.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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2. TSX:ELD (Eldorado Gold Corporation)

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Author

rbailieul

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