



Eldorado Gold Corp. Is Upgraded: Is This a Signal to Buy?

Description

Gold is now firmly back in favour with investors after surging 11% in recent months from its 52-week low in early November 2014. It is now trading at over US\$1,270 per ounce, its highest price since September 2014. It has also triggered a round of upgrades for gold mining stocks among analysts with one of the latest being **Eldorado Gold Corp.** ([TSX:ELD](#))([NYSE:EGO](#)). Investment bank Macquarie Group upgraded its outlook for Eldorado from “neutral” to “outperform” primarily because of firmer gold prices.

So what?

Gold miners are one of the best ways to invest in gold and cash in on the recent rally. This is because unlike gold bullion or ETFs they offer investors leveraged exposure to the price of gold. Essentially, this means that as the price of gold rises and their profitability grows, the return on their shares is magnified, although the inverse occurs when the price of gold falls.

However, despite the recent gold rally, the outlook for the precious yellow metal remains uncertain. Investment bank **Goldman Sachs** has forecast that gold will peak at US\$1,262 per ounce in 2015 and then decline under pressure from a stronger U.S. economy and resurgent U.S. dollar.

This makes it important for investors to determine whether a gold miner is well positioned to cash in on the gold rally as well as also being capable of weathering lower gold prices should they occur. To achieve these objectives gold miners need to have a low cost operating structure, and Eldorado has some of the lowest costs in its industry, reporting third quarter 2014 all-in-sustaining-costs (AISCs) of US\$735 per ounce.

Surprisingly, this is significantly lower than the large senior gold miners that should be better able to manage operating costs because of their economies of scale. For the same period, **Barrick Gold Corp.** reported AISCs of US\$834 per ounce, making it the lowest cost senior miner. By comparison, U.S. gold mining giant **Newmont Mining Corp.** reported AISCs of US\$995 per ounce and **Goldcorp Inc.** had AISCs of US\$1,066 per ounce.

At current prices these low operating costs allow Eldorado to generate a healthy operating margin of

US\$536 per ounce. This means the recent bump in gold prices should translate into stronger earnings and greater profitability than for many of its peers.

I believe this indicates Eldorado is a superior play on the gold rally compared to the senior gold miners, and even more so when its highly liquid balance sheet and low degree of leverage is considered. At the end of the third quarter, Eldorado had cash on hand of US\$539 million and net debt lower than its operating cash flow, thus giving it considerable operational flexibility.

This leaves it well positioned to bulk up its balance sheet for as long as gold prices remain strong, while being able to weather any sustained weakness should gold fall as sharply as some analysts have predicted.

Now what?

I believe Eldorado offers investors a solid opportunity to play the current rally in gold, despite the pessimistic outlook for gold prices after 2015. Nonetheless, this investment doesn't come without risk, with considerable potential downside should there be sustained drop in gold prices. Yet this threat is offset by Eldorado's solid balance sheet and low operating costs that will allow it to remain profitable even if gold falls.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:EGO (Eldorado Gold Corporation)
2. TSX:ELD (Eldorado Gold Corporation)

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