

What Will Happen to Eldorado Gold Corp. in Greece?

Description

It's been a rough few weeks for shareholders of **Eldorado Gold Corp.** ([TSX:ELD](#))([NYSE:EGO](#)). The gold miner saw its shares plunge by 19% on January 21 after giving a disappointing guidance. Then on January 30, the shares plunged another 13% after the left-wing Syriza party won Greece's national elections. Syriza has long been opposed to Eldorado's Skouries gold project in the northern part of the country.

And on Tuesday, the news got worse when energy minister Panagiotis Lafazanis made some bold statements against the Skouries gold project, stating that "we will use all possible legal means to back our position." Eldorado's shares declined another 4% as of this writing.

So what does this all mean for Eldorado? And with the shares depressed so much, is this an opportunity?

Don't count on this being built

In most industries, governments have every incentive to treat businesses well. After all, if taxes are raised too high, or regulations become too onerous, the business can move elsewhere. But in natural resource-based industries such as gold mining, companies must deal with whatever governments throw at them; no matter how unfair local authorities are, miners are stuck wherever their mines are located.

We've seen plenty of examples where miners invest vast sums of money on an operation only to see their taxes go up or royalty rates increase, or worse. Perhaps the most extreme example was in the DRC, when **First Quantum Minerals Ltd.** saw three of its mines seized. The company got some of its money back but not without a lengthy court process.

There have been plenty of other examples. **Barrick Gold Corp.** had to suspend its Lumwana copper mine in Zambia after the government raised its royalty rate from 6% to 20% (a move that also hurt First Quantum).

Syriza knows this and clearly has all sorts of options (including legal ones) to halt this project. If I were an Eldorado shareholder, I would not count on the Skouries mine being developed any time soon.

What does this mean for the company?

First of all, none of these projects are producing gold. So no matter what Syriza does, Eldorado's production numbers for this year will not be affected. But nearly a third of the company's reserves lie in Greece. It would be a massive blow if Syriza prevents the mine from being built.

Is it still worth an investment?

Eldorado does have some strong positives. It has very low-cost operations and an extremely strong

balance sheet. Management has a strong reputation. But an investment in Eldorado comes with a lot of risks. Even outside of Greece, the company operates in some risky countries, such as Turkey and China.

If you're looking to bet on the gold price, there are plenty of ways to do that. But if you invest in Eldorado, you need a number of things to go your way. Personally, I wouldn't make that bet.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

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