

Does Eldorado Gold Corp.'s Weak Q3 Earnings Make it a Sell?

Description

Eldorado Gold Corp. ([TSX:ELD](#))([NYSE:EGO](#)), one of the world's leading low-cost gold producers, announced third-quarter earnings results before the market opened on October 30, and its stock responded by falling over 5% in the trading session that followed.

The company's stock now sits more than 56% below its 52-week high of \$7.99 reached back in January, so let's take a closer look at the results to determine if this weakness represents a long-term buying opportunity, or if it could head even lower from here.

Lower sales and increased expenses lead to lacklustre results

Here's a summary of Eldorado's third-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago. All figures are in U.S. dollars.

| Metric | Q3 2015 Actual | Q3 2015 Expected | Q3 2014 Actual |
|-----------------------------|------------------|------------------|------------------|
| Adjusted Earnings Per Share | (\$0.01) | \$0.01 | \$0.05 |
| Revenue | \$211.52 million | \$200.04 million | \$263.51 million |

Source: *Financial Times*

In the third quarter of fiscal 2015, Eldorado reported an adjusted net loss of \$4 million, or \$0.01 per share, compared to an adjusted net profit of \$36.1 million, or \$0.05 per share, in the same period a year ago, as its revenue decreased 19.7% year over year to \$211.52 million.

The weak results above can be attributed to three primary factors. First, Eldorado's gold sales decreased 3.8% year over year to 182,124 ounces. Second, gold prices have fallen over the last year largely due to the strengthening of the U.S. dollar, which led to the company's realized selling price decreasing 11.1% to \$1,132 per ounce. Third, it cost more for the company to produce each ounce of gold, including its all-in sustaining cash cost increasing 13.6% to \$835 per ounce.

Here's a quick breakdown of six other notable statistics from the report compared with the year-ago period:

1. Gold revenues decreased 14.5% to \$206.2 million
2. Gold production decreased 4.9% to 183,226 ounces
3. Gross profit from gold mining operations decreased 48.4% to \$53.1 million
4. Operating profit decreased 84.9% to \$9.66 million
5. Cash flow from operating activities before changes in non-cash working capital decreased 44.9% to \$43.36 million
6. Total assets decreased 3.9% to \$7.11 billion

What should you do with Eldorado's stock today?

Overall, it was an abysmal quarter for Eldorado. Simply put, the company produced less gold at a higher cost and sold less of it at a lower price, and this kind of a performance is a recipe for disaster for any company in any industry. With this being said, I think the 5% drop in its stock was warranted, and I think it could continue lower from here, so Foolish investors should avoid it until its next quarterly report at the very least.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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