Why Detour Gold Corporation Is Different From Other Gold Miners

Description

With a litany of gold miner stocks available to investors today, it's interesting to come across an option that has some unique characteristics. As you'll see, **Detour Gold Corporation** (TSX:DGC) concentrates its project bets, which counterintuitively could limit its downside risk.

One-trick pony

Unlike other miners, Detour Gold only has one mining property. **Goldcorp,** by comparison, operates 16 projects across Canada, the U.S., and Latin America,

When analyzing the company, Detour Gold is a classic one-trick pony. While this comes with some operating risks, it does simplify the investment case significantly. Estimated production this year for its sole mine is 475-525,000 ounces with a cost ranging from $1,050-1,150 an ounce.

Recent results are looking very encouraging. Last quarter, Detour Gold reported production of 125,300 ounces. On an annual basis, this would outstrip investors' previous expectations for output. All-in costs are also below guidance, coming in at $1,030 an ounce last quarter versus $1,300 an ounce at the start of the year. Many think that Detour Gold could turn profitable in 2016 on the back of higher gold production and lower costs.

If results like this continue, the market will continue to reward shareholders. Over the past 12 months, shares are up nearly 60%.

Debt concerns remain

As with most miners that have to finance the large start-up costs involved in opening up a major mine, Detour Gold has taken on quite a bit of leverage. In the latest quarterly filings, the company listed $425.1 million in long-term debt. Cash levels stood at $133.4 million.

While this appears to be fairly healthy, especially for a miner, impending debt maturities add some complexity to the situation. By 2016, Detour Gold will only have $27.5 million in debt to be repaid. By 2017, however, the firm faces $527.5 million in debt repayments. While it's likely that refinancing will occur in some manner, it’s far from guaranteed.

For now, it looks like Detour Gold has the trust of the market, implementing several financing raises in recent years. Should gold continue to languish, however, investors have been known to put pressure on intermediate producers like Detour Gold.

Does the stock warrant an investment?

Detour Gold looks to be caught in a company-specific tailwind (higher production and lower costs) and a macro headwind (falling gold prices). Even with the company’s impressive results, it won’t be able to pay off its impending debt obligations at current gold prices.

Fortunately, the stock price should be able to support itself given the quality of its assets. Detour Lake, its sole property, is a valuable gold asset given the favourable mining jurisdiction, size of the deposit, and cash flow potential, even in today’s gold environment. This makes Detour Gold an attractive takeover target by a senior gold producer.

Trading below book value, any further fall in share price would be mitigated by takeover speculation. A floor on the stock price should allow Detour Gold to sell equity into the market in the future to pay off its debt obligations. If you’re a believer in gold, Detour Gold allows you to participate in the metal’s upside while mitigating your downside risks.

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rvanzo