



Revealed: These 5 Cheap Gold Stocks Have Huge Potential

Description

If you're bullish on gold, there are several ways to play the sector.

Perhaps the most popular is buying physical gold. People like this option because gold is relatively easy to store, and they have access to it if we ever see a collapse in fiat currency. It also ensures an investor knows exactly what they're getting. Many gold ETFs don't own the physical metal; rather, they own pieces of paper that approximate the equivalent of holding gold.

But if you really think gold is about to head much higher, I'd argue that you'll want to own gold-mining companies. Gold miners have something called operating leverage on their side. This means that with costs that stay relatively constant no matter what gold does, any increase in the price of the commodity will really goose their bottom line.

Look at it this way.

Say a gold miner makes \$50 per ounce when gold is \$1,100 per ounce. If gold increases to \$1,200 per ounce, profits triple without the miner having to do much of anything.

Here are five gold stocks that are poised to benefit greatly from increased operating leverage.

Kinross

Kinross Gold Corporation ([TSX:K](#))([NYSE:KGC](#)) is one of Canada's largest gold companies with a market cap of just over \$8 billion. It has operations in the U.S., Brazil, Chile, Africa, and Russia. Production is expected to hit between 2.7 and 2.9 million ounces for 2016.

With all-in sustaining costs of between \$890 and \$990 per ounce depending on the mine, a stable balance sheet, and free cash flow of some US\$200 million in 2015, Kinross is poised to be a winner if gold continues its march upwards.

Yamana

Yamana Gold Inc. ([TSX:YRI](#))([NYSE:AUY](#)) isn't just a gold producer. The company also mines significant amounts of copper and silver. The company has production from Canada, Mexico, Brazil, Chile, and Argentina with new projects in development in Brazil and Argentina.

Yamana has a reasonable amount of debt, low all-in sustaining costs of approximately US\$800 per ounce of gold produced, and the company is on pace to generate healthy free cash flow in 2016, even if the price of gold doesn't improve from here. It also pays a small dividend.

New Gold

New Gold Inc. ([TSX:NGD](#))(NYSE:NGD) has four main producing assets in Canada, the United States, Mexico, and Australia. New Gold also has two development projects on the go. The big one, Rainy River, is projected to start producing in mid-2017.

New Gold has some of the lowest all-in sustaining costs in the business, coming in at just US\$758 per ounce in the company's most recent quarter. Those low costs plus Rainy River's new production and a healthy balance sheet make New Gold a very attractive play for long-term investors bullish on gold.

Argonaut Gold

Argonaut Gold Inc. ([TSX:AR](#)) is a smaller gold producer, sporting a market cap of just over \$500 million on the TSX. The company has production from two mines, El Castillo and La Colorada, which are both located in Mexico. The company also has three development stage projects, but these are years away from production.

Argonaut's real prize is La Colorada. That mine increased production 35% compared with 2014 while decreasing cash costs by 16%. At the end of 2015, La Colorada boasted costs of 37% lower than El Castillo.

Iamgold

Iamgold Inc. ([TSX:IMG](#))(NYSE:IAG) expects approximately 800,000 ounces of production in 2016 from its four mines. The majority of production will come from Rosebel and Essakane, which are located in Suriname and Burkina Faso, respectively.

Iamgold has one of the best balance sheets in the whole sector. The company's US\$628 million in debt is almost entirely offset by US\$587 million in cash. This cash balance ensures the company will easily have enough capital to bring its robust exploration portfolio online.

The only problem with Iamgold is the company's relatively high all-in sustaining costs, which are projected to come in between US\$1,000 and US\$1,100 per ounce produced for 2016. If gold continues to do well, this isn't such a big deal. But if gold sells off, investors will likely get out of Iamgold first and ask questions later.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. NYSE:IAG (IAMGOLD Corporation)
3. NYSE:KGC (Kinross Gold Corporation)
4. TSX:AR (Argonaut Gold Inc.)
5. TSX:IMG (IAMGOLD Corporation)
6. TSX:K (Kinross Gold Corporation)
7. TSX:NGD (New Gold Inc.)
8. TSX:YRI (Yamana Gold)

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