



## Eldorado Gold Corp.: An Attractively Valued Contrarian Bet on Gold

### Description

Despite the surge in gold, beaten-down gold miner **Eldorado Gold Corp.** ([TSX:ELD](#))([NYSE:EGO](#)) has failed to keep pace with many of its peers that have rallied quite strongly in recent months.

Miners **Yamana Gold Inc.**, **B2Gold Corp.** and **IAMGOLD Corp.** for the year to date are up by a massive 142%, 164%, and 192%, respectively, whereas Eldorado has only increased by a mere 29% for this period. This can be blamed on the growing uncertainty among investors regarding the viability of its business.

Nonetheless, there are indications that Eldorado has been roughly handled by the market and now constitutes a solid long-term investment opportunity.

### Now what?

The unease surrounding Eldorado's business can be attributed to its decision to sell its three gold mines and a development project in China for a total of US\$900 million. This worrying because the three mines have historically been responsible for about half of Eldorado's gold production.

The July coup attempt in Turkey, where Eldorado operates two gold mines, has added to this concern because those mines are responsible for the other half of its gold output. While Eldorado advised that the coup had no impact, both mines experienced a sharp drop in production because of operational issues and lower ore grades.

Similar issues were also experienced at its Chinese mines, causing second-quarter 2016 gold production to plummet by 31% compared with the equivalent period in 2015. This resulted in a sharp deterioration in revenues that triggered a US\$330 million net loss for the quarter, or almost double what it had been a year earlier.

Expenses also increased, and all-in-sustaining costs for the quarter shot up by 9%, further impacting its bottom line.

Despite these negative factors, investors should not be deterred from investing in Eldorado.

The asset sales are a positive move. Not only have they generated US\$900 million for Eldorado, but the sale prices realized were better than some analysts expected for what are considered to be mature mines operating in a difficult jurisdiction. The divestment not only lowered its risk profile by reducing potential geopolitical and operational hazards, but it gives Eldorado a substantial cash windfall that can be used to strengthen its balance sheet and finance projects under development.

In fact, the sales make complete sense when it is considered that Eldorado's management stated the company intends to reduce its operational jurisdictions and concentrate on its European projects.

Key among these ventures are its Skouries and Olympias mine developments in Greece. On completion, these are expected to add over 200,000 ounces of gold to Eldorado's annual production. There is also its decision to proceed with the Kisladag mine expansion in Turkey, which will add another 70,000 ounces annually to Eldorado's gold output when completed in 2018.

The significant increase in gold production these projects will provide will give Eldorado's bottom line a healthy bump, especially because analysts expect higher gold prices to remain in play for the foreseeable future.

This won't be the only factor that will cause its bottom line to grow.

Eldorado expects the sale of its Chinese assets and the completion of its European projects will lead to a significant reduction in expenses. It has forecast that by 2020 all-in sustaining costs will have fallen to under US\$650 per ounce, which is 30% lower than what was reported for the first half of 2016.

### **So what?**

The market has only baked in the risks regarding Eldorado's operations and has ignored the significant long-term upside that the miner possesses. When this is considered along with its solid balance sheet, growing production profile, and falling costs, as well as the fact that it has missed out on the rally experienced by its peers, it is one of the most attractively priced gold miners at this time.

### **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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mattdsmith

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