Eldorado Gold Corp.: 1 of the Best Contrarian Plays on Gold

Description

Gold has pulled back sharply in recent weeks over fears of a U.S. rate hike and a stronger U.S. dollar. This has triggered considerable concern among investors that after breaking out of three-year bear market, the lustrous yellow metal is destined for another protracted slump.

Nonetheless, there are signs that this pullback may only be temporary with a range of factors supporting higher gold prices.

For investors seeking to make a bet on gold, one of the most attractive plays at this time is miner **Eldorado Gold Corp.** (TSX:ELD)(NYSE:EGO). It didn't experience the same powerful rally that saw the stock prices of peers such as **Yamana Gold Inc.**, **Agnico Eagle Mines Ltd.** or **B2Gold Corp.** shoot up by 97%, 74%, and 173%, respectively, for the year to date.

Instead, because of concerns over the quality of its assets and operations, Eldorado rose by a far more modest 18%. Along with signs that these concerns are overblown, this makes Eldorado an attractive levered play on gold.

Now what?

It was Eldorado's divestment of its portfolio of assets in China that triggered considerable consternation among investors.

You see, those assets were historically responsible for almost half of Eldorado's gold production, and their sale has caused the volume of gold produced to fall sharply.

What investors have failed to recognize is that this was a positive move for Eldorado.

All three mines were mature assets that were experiencing deteriorating ore grades and required considerable investment to extend their productive lives. They were also operating in what can be a risky and unpredictable jurisdiction; by selling them, Eldorado was able to turn potential liabilities into a massive cash windfall.

This becomes clearer when considering that for the second quarter 2016, all three mines reported lower recovery rates compared to a year earlier.

In fact, the sale prices that Eldorado secured exceeded the expectations of many analysts for these reasons. Total proceeds came to US$900 million for the three mines and Eastern Dragon project.

This has substantially boosted its coffers, providing much-needed funding for its renewed focus on the development of its European assets. These include the Olympias and Skouries project in Greece as well as the Kisladag expansion in Turkey. On completion, Eldorado expects these mines to provide a low-cost source of gold that will boost production by about 300,000 ounces, replacing that lost with the sale of its mines in China.

Because of the high ore grades and low cost of operations expected from these operations, Eldorado has forecast that its all-in sustaining costs will fall from over US$800 per ounce to US$650 per ounce 2020. If this occurs it will become one of the industry’s lowest-cost gold miners, which is a tremendous advantage in an industry dominated by volatile gold prices.

These factors will boost Eldorado’s earnings and margins, giving its bottom line a healthy boost.

So what?

Eldorado is on track to revamp its operations, which will see its gold production rise and operating costs fall, making it an attractive investment for anyone seeking exposure to gold. Because Eldorado hasn’t experienced the same massive rally as the majority of its peers, it isn’t unreasonable to expect a healthy bump in its share price, especially if gold remains at over US$1,200 per ounce.

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