



Make a Contrarian Bet on Gold With Eldorado Gold Corp.

Description

Growing concerns over the health of the global economy coupled with a range of geopolitical fissures continues to backstop the price of gold. Higher precious metals prices sparked a massive rally among beaten-down gold miners in mid-2016, but growing optimism about the health of the economy has seen them give the majority of those gains back.

One gold miner that failed to benefit from the rally and now appears attractively priced is **Eldorado Gold Corp.** ([TSX:ELD](#))([NYSE:EGO](#)).

Now what?

The primary reason for Eldorado's failure to benefit from higher gold was market concern over the performance of its operations. Gold production during the third quarter 2016 dropped because of declining ore grades and the decision to sell its operations, including three operating mines in China.

As a result, 2016 production fell drastically. For the full year 2016, Eldorado reported output of 468,025 ounces, which was 33% lower than 2015.

Lower production accompanied by declining ore grades also caused costs to spike. All-in sustaining costs, which are probably the best measure of the total expenses associated with gold mining and sustaining production, spiked by almost 7%, further denting profitability.

In fact, for 2016, Eldorado reported a US\$344 million loss, but this was less than a quarter of the loss reported for the previous year.

What many investors failed to grasp was that the sale of its Chinese assets netted Eldorado an impressive US\$882 million — well in excess of what some analysts believed those assets to be worth. The sale also reduced the level of risk associated with the miner's portfolio.

You see, by selling those properties Eldorado divested itself of mature assets that required considerable investment to sustain production and were operating in a difficult and risky jurisdiction.

This massive cash injection couldn't have come at a better time. It allowed Eldorado to bulk up its balance sheet, ending 2016 with US\$1.1 billion of liquidity made up of cash on hand and a US\$250 million line of credit. This will provide the financing required to develop its lower-risk, higher-quality mines located in Greece, Brazil, and Turkey. These projects, on completion, will create a significant increase in gold output; Eldorado is expecting them to boost production by up to 300,000 ounces annually.

The higher-grade ore mined will lead to lower operating expenses, which, in conjunction with higher production, will give Eldorado's earnings a healthy bump. Eldorado has forecast that these mines will help to reduce all-in-sustaining costs to a mere US\$650 per ounce by 2020, making it one of the lowest-cost miners in its industry.

Nevertheless, investors should expect further short-term pain as Eldorado continues to reposition its mining portfolio and operations. Gold production for 2017 is forecast to be up to 25% lower than 2016, but, on a positive note, all-in sustaining costs are expected to fall by up to 6%, boosting Eldorado's profitability and bottom line.

So what?

In a surprising turnaround, given that Eldorado had suspended its dividend payments after a stunning \$1.2 billion fourth-quarter 2015 loss, the company reinstated its dividend. Eldorado announced that it would pay a \$0.02 dividend per share in March 2017, and if the miner maintains this payment, it will yield a handy 1% over the course of 2017.

While this may not be a massive yield, it does illustrate the advantage of investing in gold miners rather than physical bullion or a gold exchange-traded fund, which are non-income-producing investments. With Eldorado being attractively priced and the progress being made with transitioning its operations, now is the time for investors to add Eldorado to their portfolios.

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