Don’t Miss This Opportunity to Cash In on Higher Gold Prices

Description

Despite fundamentals indicating that gold should be in retreat, the yellow metal continues to rise in value. It has shot up by almost 2% since the Fed hiked U.S. interest rates last week, which is a strange phenomenon.

Typically, higher interest rates are bad for gold because they increase the opportunity cost associated with holding a non-income-producing asset. They are also associated with a stronger U.S. dollar, which is also a negative for gold. This is because gold is priced in dollars and becomes more expensive for buyers using other currencies.

Nonetheless, gold continues to rise and is now over 18% higher than it was in December 2015 when it fell to its lowest price in almost six years. These events represent what some pundits are describing as a breakdown in fundamentals and the accepted relationship between asset classes. Along with the fear that has engulfed markets in recent days, this makes now the time for investors to hedge against uncertainty by gaining exposure to gold.

One of the best means of gaining leveraged exposure to higher gold prices is by investing in **Detour Gold Corporation** (TSX:DGC).

Now what?

Detour Gold operates the Detour Lake mine located in northeastern Ontario. It is a large-scale open-pit mine that, since commencing commercial production in September 2013, has been one of Canada’s most productive gold mines. The mine has reserves of 14.4 million ounces, which gives it a long production life of 23 years.

Including all of Detour Gold’s properties, the company has gold reserves totaling 16.4 million ounces, and these reserves are expected to grow.

You see, Detour Gold’s current reserves were calculated using a gold price of US$1,000 per ounce, but with gold now trading above US$1,200 per ounce, these reserves will be recalculated using a higher forecast market price. This means that ore, which was previously assessed as uneconomic to mine at US$1,000 per ounce, should become profitable to mine at the higher prices.

Impressively, Detour Gold ramped up operations to take advantage of higher gold prices over the course of 2016. Production increased to 537,765 ounces of gold, which is a remarkable 6% higher than 2015. This growth will continue into 2017 with Detour Gold forecasting a 2-17% increase in output.

Disappointingly, all-in sustaining costs for 2017 are expected to be between US$1,025 and US$1,125 per ounce, which is higher than many of Detour Gold's peers and 12% higher than a year earlier.

Nevertheless, with gold trading at well over US$1,200 per ounce, Detour Gold will still be profitable.

The hike in costs can be attributed to increased drilling and exploration activity around the Detour Lake property as part of the miner's growth plans. These include developing the West Detour deposit which has been evaluated to contain 1.5 million ounces of gold, and the Lower Detour zone, which has the potential for a high-grade underground mine.

Another aspect of Detour Gold that makes it an attractive investment is its solid balance sheet. At the end of 2016, it had net cash of US$129 million and net debt of US$272 million, which is a mere 1.3 times EBIDTA. This attests to the miner's financial strength, leaving it well positioned to obtain further capital should it be needed to fund its exploration and development program.

So what?

While I have never been a massive fan of investing in gold, primarily because of its lack of utility and the difficulty in assessing its true value, recent events indicate that an opportunity exists for investors seeking a contrarian investment. Detour Gold is an attractive leveraged play on higher gold prices, offering considerable potential upside.

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