Coming to Grips With Detour Gold Corp.

Description

Canadian intermediate gold miner **Detour Gold Corp.** (TSX:DGC) has been a roller-coaster ride of late. Over the last year, its stock price has gyrated wildly. Last week, it plunged by 6% a day after it released its full-year 2016 results and then rallied by 7% the following day. This, however, was not enough to leave it in positive territory; Detour is down by 23% over the last year.

As discussed in my earlier article on Detour Gold, this leaves it attractively valued, particularly when considering that it has not enjoyed the same rally as many of its peers, making it a compelling bet on higher gold prices.

Now what?

When investing in gold miners, it is all really about one thing: gold. The price of the yellow metal dictates whether gold mining stocks will rise or fall in value. Gold has shown itself to be a volatile asset that is more fickle than stocks.

Investors should also remember that gold miners are essentially a leveraged play on gold, which means that their prices rise and fall more sharply than the precious metal.

In the case of Detour Gold, it was gold's downward movement coupled with the miner announcing a 10% increase in 2017 mining costs and higher maintenance capital which triggered the sharp decline in its stock price. The permitting delay for the West Detour project, which means it won't commence operations until 2021, has also had an impact on Detour Gold's share price.

Nevertheless, since then, Detour Gold has rallied by just over 5% because of firmer gold prices, and the market realized that despite greater-than-expected expenses, it will be extremely profitable because of higher gold prices.

More importantly, the outlook for gold continues to improve.

The optimism surrounding Trump's fiscal stimulus which drove equities to record highs is rapidly waning. His erratic statements have put investors on edge and added to the degree of uncertainty in a world already riven with considerable economic and geopolitical fissures. There are concerns that many of Trump's ambitious economic policies will ever be implemented in full, if at all.

Growing uncertainty supports firmer gold because it is perceived by many to be the ultimate store of value and safe-haven asset. Some analysts have predicted that it could rise to as high as US$1,250 per ounce by the year's end.

Higher prices and an improving outlook are a boon for Detour Gold. They will give its earnings a healthy lift and have allowed it to reappraise its gold reserves, using US$1,250 per ounce as the long-term average price rather than US$1,000 per ounce as per the previous reserves report. This means that a greater quantity of gold ore is profitable to mine. Even after mining 537,765 ounces during 2016, Detour Gold's reserves stand at 16.5 million ounces, almost 1% higher than a year ago.

Importantly, the miner expects to grow 2017 gold production to grow by as much by 12% year over year, thereby allowing it to take full advantage of higher gold.

So what?

Gold miners are a risky investment. Not only is their value dictated by gold, a difficult-to-value and volatile metal, but their operations come with considerable risks. This does not make them an appealing investment for all but the most risk-tolerant investors.

Nonetheless, Detour Gold is attractively valued and well positioned to benefit from higher long-term gold prices, making it a solid candidate to take full advantage of gold's recent rally.

CATEGORY

1. Investing
2. Metals and Mining Stocks

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/07/27
Date Created
2017/03/28
Author
mattdsmith