



Asanko Gold Inc. Stock Plunges: Here's What You Should Do

Description

It was a bolt from the blue for investors in **Asanko Gold Inc.** (TSX:AKG)(NYSE:AKG). Shares of the junior gold miner plunged 13% in the early hours of trading on May 31 and as much as 31% in the U.S. markets, forcing the regulators to halt trading in the stock for the day. So, what should you do with your Asanko shares now?

What drove Asanko down the cliff

Muddy Waters LLC, a private investment research firm known primarily for its short-selling bets, revealed it is short Asanko stock. That wouldn't be half as bad had Muddy Waters not gone to the extent of [predicting that Asanko could go bankrupt](#) in the worst-case scenario, and the stock could head to "zero."

Yes, you read that right: Muddy Waters believes Asanko shares could be worth nothing thanks to the several threats looming over the company.

Why Muddy Waters sees no value in Asanko

Muddy Waters raised several concerns about Asanko in its research note, including the possibility that the company may never be able to recover its investments in its Nkran and Esaase deposits because of "flawed geology." These deposits are Asanko's two largest deposits in its only namesake gold mine located in Ghana, West Africa. Of the two, Nkran is currently operative.

Also pointing at the recent wall collapse at Nkran, Muddy Waters speculates that Asanko may have to spend anything between US\$75 and US\$115 million to keep the mine running.

It's worth knowing that the Asanko mine is located in a heavy-rainfall-prone area, which is why wall collapse and other damages are common occurrences. Asanko management, however, iterated during its recent earnings call in April that the several wall failures in the past two to three years haven't affected production.

Considering that Asanko held only about \$48 million in cash as of March 31, 2017, and has debt worth

US\$150 million due for payment in July next year, Muddy Waters feels it could face a severe liquidity crunch if it has to shell out all that money to maintain Nkran. And if operations at Nkran aren't kept up to date, the company will not be able to generate cash flows to fund the development of Esaase.

Muddy Waters is also skeptical about the satellite deposits expansions, its cash flow potential, and the ore grades at Nkran, among other things.

Asanko's stand

Asanko has already released a statement refuting Muddy Waters's claims and reiterating its production and expansion program outlook.

In April, Asanko reported record quarterly production of 58,187 ounces of gold for the first quarter and aims to produce 230,000-240,000 ounces for the full year.

In its latest statement, management doesn't see merit in Muddy Waters's assertions and confirmed that the company is on track to meet its full-year production guidance.

Asanko also stated that it expects to generate US\$64-77 million in cash flow this year if it can meet its guided production range and if the gold price remains around US\$1,200 per ounce. Spot gold is trading at a little over US\$1,250 an ounce as of this writing.

What you should do

While I always advise investors to take analyst ratings and views with a grain of salt, I believe investors in Asanko should be cautious. Management will release its Expansion Definitive Feasibility Study in some weeks, which should give investors a clearer picture of where Asanko's production and expansion projects are headed. I'm sure management will aim to address many of the concerns raised by Muddy Waters in this report. Meanwhile, because Muddy Waters also shorts shares of the company it is bearish on, investors may want to wait before taking a call based on just the firm's report.

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