



The Latest Deal Makes Eldorado Gold Corp. a Solid Contrarian Play on Gold

Description

The latest surge in gold has attracted considerable attention from investors as the lustrous yellow metal moves towards the psychologically important US\$1,300-per-ounce barrier. The latest news from **Eldorado Gold Corp.** ([TSX:ELD](#))([NYSE:EGO](#)) highlights the considerable potential the intermediate gold miner holds in an environment where higher gold prices are fast becoming the norm.

Now what?

Eldorado missed out on the same rally that many of its peers enjoyed because of the recovery in the price of gold that commenced this time last year. This was because the miner was experiencing declining production and other operational issues that were impacting its bottom line.

Eldorado also elected to divest itself of its higher-risk assets located in China, which included three mines and an exploration property for US\$900 million. This made a significant dent in its gold reserves and production, but left Eldorado flush with cash, allowing it to invest in developing its operations in Turkey as well as Greece.

While Eldorado continues to grapple with declining ore grades at its flagship open pit Kisladag mine, which is Turkey's largest gold mine, there has also been some good news for investors.

The company recently announced that phase two of work at its Greek Olympias mine was substantially complete and that it had secured superior terms for the sale of gold produced at that mine.

More importantly, Eldorado is on track to complete the \$590 million acquisition of Integra Gold Corp., giving it ownership of the high-quality Lamaque gold project in Quebec. That ore body has been assessed to hold resources and reserves of 1.5 million ounces of gold at an average grade of just over nine grams of gold per tonne of ore. This is a high grade for any mine and makes it one of the highest-quality gold mining projects under development at this time.

The importance of the ore grade can't be emphasized enough.

Basically, the higher the grade, the more economic it is to extract the gold from the surrounding minerals. This means that the Lamaque mine, on becoming operational, will have impressively low all-in sustaining costs (AISCs) of US\$634 per ounce of gold produced. These are well below the AISCs of many other mines, indicating just how profitable it will be once it commences production.

This project, combined with the work currently being undertaken on the Olympias and Kisladag mines, should see company-wide AISCs fall to US\$650 per ounce by 2020 and trigger a substantial uptick in gold output. It is estimated that annual gold production could grow by over 300,000 ounces annually once the projects under development are complete, boding well for Eldorado's profitability, which should cause its stock to appreciate.

So what?

The distinct improvement in Eldorado's financial position and the overall operating environment for gold miners because of higher gold prices is emphasized by the company's decision to reinstate its dividend earlier this year. This means that patient investors will be rewarded by its 1% yield as they wait for the marked improvement in its operations to translate into a higher share price.

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