A Gold Stock With Big Upside Potential?

Description

Gold is extending its late 2017 rally into the new year, and contrarian investors are wondering which miners could benefit from more gains in the price of the precious metal.

Gold market

At the time of writing, gold trades for US$1,318 per ounce, up nearly US$80 from the December low.

The surge in recent weeks is probably causing some confusion among the gold bears, as most of the fundamentals that analysts use to gauge whether or not gold should move higher would suggest strong headwinds.

For example, the U.S. Federal Reserve raised rates three times in 2017 and has indicated another three moves to the upside could be in the cards for 2018.

Higher rates in the United States tend to be negative for gold, as they increase the opportunity cost of holding the yellow metal, which doesn't provide any yield.

So, what's going on?

Part of the increase is coming from new rumblings among market watchers that the Fed might not be as aggressive as anticipated on the rate front this year.

In addition, some safe-haven demand might be providing a tailwind amid a renewed media focus on threats from North Korea.

Finally, pundits say the move to gold could be coming from traders exiting positions in cryptocurrencies ahead of an anticipated crash sometime this year.

These positive forces might be offsetting the negative headwinds from the rate-hike side, and it is anyone's guess where things are headed in the coming weeks and months.

Stocks that could surge?

If you are a gold bull, there are a number of stocks that could deliver some big upside on new buying in the sector.

Let's take a look at **Detour Gold Corporation** (TSX:DGC) to see why it might be an interesting pick.

Operations

Detour owns the Detour Lake mine located in northeastern Ontario. The company produced the first gold at the site in 2013 and is working hard to make the mine more efficient.

The company reported Q3 2017 production of 140,000 ounces, up from 127,800 ounces in the same period last year. All-in sustaining costs came in at $1,032 per ounce compared to $1,042 in Q3 2016.

Detour's cost structure is higher than some of its peers, but the company is heading in the right direction. Free cash flow before financing activities came in at $60 million for the first nine months of 2017, and higher gold prices should extend the trend.

As a result, further debt reduction should be on the way.

Should you buy?

The stock trades for $14.60 at the time of writing, which isn't too far off the 2017 low it hit a month ago. If gold continues to improve, and Detour reports better-than-expected Q4 numbers, Detour could get a nice lift in the first part of 2018.

In 2016, this stock was above $33 per share, so the upside potential is significant on strong momentum.

I wouldn't back up the truck, but Detour might be worth a contrarian shot while the gold sector remains out of favour.

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