This Low-Cost Gold Producer Is Ridiculously Cheap!

Description

In February's edition of the Motley Fool's top stocks for the month, my top pick was **Eldorado Gold Corp.** (TSX:ELD)(NYSE:EGO).

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There are a lot of reasons to like this company right now.

Inflation is rising

Gold has long been viewed as providing a natural "hedge" against inflation.

The idea behind this theory is that there is a finite supply of gold in the world, and as central banks continue to dilute the money supply, the value of gold appreciates in turn, as buyers increasingly need more "diluted dollars" to buy each ounce of gold over time.

That relationship is particularly relevant now that inflationary pressures have begun to accelerate towards the end of 2017.

In the fourth quarter, inflation in the United States rose at a 1.9% pace, which was the fastest increase in more than a year and a sharp spike above the third-quarter measurement of 1.3%.

Commodity prices are starting to rebound

Adding further fuel to the inflationary pressures is that lately commodity prices have started to bounce, following a period of "trough prices" a couple of years back.

Gold — a precious metal but also as a commodity — has benefited from the latest breakout, with the spot price of gold bullion having risen by more than 7.3% over the past six weeks.

Despite that, shares in Eldorado have lagged the broader recovery in gold prices, meaning there's likely some easy money to be had if and when the stock catches up.

Gold has traditionally acted as a market hedge

While gold is well known as a hedge against inflation, it's also known to be regularly used by market participants as a hedge against market forces in times of crises.

When stock and bond markets are facing turmoil, there is typically a "flight-to-safety" trade that takes place, which sees investors trade paper assets for hard assets like gold bullion.

This tends to favour gold producers like Eldorado, as it did in 2011 when gold was at all-time highs.

Despite that, Eldorado is currently trading near historic lows

Despite all of the macro factors working in Eldorado's favour at present, thanks to some unfortunate recent events, the company continues to trade ridiculously cheap and is, in fact, very close to its all-time lows.

Back in October, management announced it was revising down guidance for 2017 production from its Kisladag gold mine in Turkey to 170,000-180,000 oz, which is down from the company's original guidance at the start of the year for production of 230,000-245,000 oz.

Following the news, shares in the Vancouver-based company proceeded to fall 45% in the following days and weeks and are currently trading at just 0.25 of book value, a conservative measure of value often used by contrarian investors.

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Conclusion

Despite the latest setback at its Kisladag mine, Eldorado owns some of the lowest-cost assets to produce gold anywhere in the world, meaning that if the company can manage its outstanding debt maturities, the shares will probably be worth a lot more in the future than where they are trading today.

As Warren Buffett says, "…be greedy when others are fearful," and while this is probably true of the markets as a whole right now, it may not be truer for any other company than Eldorado.

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