The Recent Pullback of This Gold-Mining Stock Makes Now the Time to Buy

Description

Surprisingly, despite stocks moving to record highs, gold remains firm, trading above the psychologically important US$1,300 per ounce mark. This can be attributed to concerns that a major market correction is looming, because stock valuations have outstripped underlying fundamentals, such as corporate earnings and economic growth.

There are also fears that another financial crisis could be triggered by geopolitical and economic fissures that exist globally. These factors continue to support firmer gold prices because of the yellow metal's status as a store of value and safe-haven asset.

In such a market, where there are conflicting signals, it is always prudent to hedge against uncertainty by investing in gold. Investors should be taking a closer look at gold miners because they provide levered exposure to the lustrous yellow metal, meaning investors will earn greater returns as gold rises. Since pulling back by almost 15% for the year to date because of market concerns over gold production and reserves, **Detour Gold Corporation** (TSX:DGC) appears attractively valued.

Now what?

Detour Gold owns and operates the open pit Detour Lake gold mine located in Ontario. While there were some market jitters about the miner's ability to boost production, which caused the stock to be heavily sold off in recent weeks, Detour Gold reported record mining and milling rates for 2017.

That saw full-year 2017 production rise by 6% year over year to 571,463 ounces. Ore grades also rose with the average head grade for the year coming in at 0.93 grams of gold per tonne of ore, which is 0.03 grams higher than a year earlier. The only disappointing aspect of Detour Gold's operations were its relatively high costs of US$1,065 per ounce of gold produced compared to other intermediate gold miners' all-in sustaining costs (AISCs).

Nonetheless, Detour Gold's full-year results were in line with its annual guidance; it generated US$115 million of free cash flow before financing activities.

The solid free cash flow generated allowed the miner to strengthen its balance sheet, repaying US$88

million of debt, while retaining cash on hand of US$134 million. Detour Gold finished 2017 with very manageable net debt of less than one times EBITDA, underscoring the strength of its balance sheet.

That leaves the miner well positioned to invest further in expanding its operations during 2018.

In fact, Detour Gold has estimated that 2018 gold production will grow by ~9% compared to 2017 and that cash costs per gold ounce produced could fall by as much as 6%. Head grades for the ore mined and milled are also forecast to improve compared to 2017, which will further help to boost production and reduce AISCs.

Detour Gold remains focused on conducting exploration and development activities at its Detour Lake and Burntbush properties, having budgeted US$10 million for drilling programs during 2018 at those locations.

These factors combined with higher gold prices indicate that Detour Gold's 2018 earnings and profitability should grow significantly. The 2018 average analyst earnings-per-share estimate is US$0.79, which is 32% higher than in 2017. If Detour Gold's earnings spike by such a significant amount, that will cause its stock to appreciate significantly.

So what?

After the latest pullback, Detour Gold is attractively valued. When combined with the miner's solid balance sheet and positive 2018 outlook, now is the time for investors to acquire the stock. Not only will investors benefit from higher gold prices and Detour Gold's improving performance, but it will also help them to weather-proof their portfolios against the uncertainty surrounding stocks at this time.

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