Can This Beaten-Down Gold Miner Ever Bounce Back?

Description

It has been a tough few years for investors in mid-tier gold miner **Eldorado Gold Corp.** (TSX:ELD)(NYSE:EGO). The deeply troubled miner has been heavily sold-off because of the market sensing an unacceptable degree of risk attached to its operations to see it down by a whopping 29% for the year to date. This has led to the emergence of claims by some pundits that Eldorado is an attractively valued opportunity for investors seeking exposure to gold.

Now what?

The ructions that sharply impacted Eldorado's market value were centered on declining production as well as higher than anticipated political risk associated with its Olympias and Skouries projects in Greece. There are signs from its latest first-quarter 2018 results that its operations are improving.

Total production for the quarter was up by 15% year over year to be 86,634 gold ounces. This increase can be attributed to the Olympias mine, where the phase two development came online at the end of 2017. Olympias produced 9,965 ounces for the quarter, although costs were far higher than forecast.

Cash costs came to US$734 per gold ounce produced, and all-in sustaining costs (AISCs) were US$1,363 per ounce. That is compared to forecast operating costs of US$550-$650 per ounce.

As a result, Eldorado's company-wide AISCs for the quarter came to US$878 per ounce, which was 11% greater than the same period in 2017.

It is for these reasons that Eldorado's stock has plummeted, even after it reported some credible drilling results for the Lamaque development in Quebec. Eldorado also confirmed in that announcement that the project is on schedule to enter commercial production in early 2019.

Despite higher costs, net income for the quarter was US$14 million, or an impressive 75% greater than the same period in 2017.

The issues that Eldorado has been having with the Greek government regarding its Olympias mine and Skouries project are also weighing on market sentiment for the stock, further depressing its value.

Eldorado was forced to place the Skouries project into care and maintenance, which will occur by the end of the second quarter 2018, until it can obtain all of the required permits to complete construction.

These issues highlight the considerable risks associated with Eldorado's business as well as operating in a foreign country that has a reputation for resource nationalism, and where the government is experiencing considerable fiscal pressures.

There are signs, however, that Eldorado is making progress with resolving the issues raised by the Greek government when it received a positive arbitration ruling regarding the Madem Lakkos metallurgy plant, which will treat ore mined from Olympias and Skouries.

Furthermore, Eldorado has sufficient liquidity to ride out these issues, ending the first quarter with US$460 million in cash and an undrawn US$250 million revolving credit facility. This also provides it with sufficient capital to complete Lamaque and commence construction of the Ki?lada? Mill.

So what?

Eldorado is a tough stock to like. The miner has had to face more than its fair share of hurdles, but there are signs that the issues surrounding its operations are easing. While Eldorado is a high-risk investment, there are signs that the risk/reward equation is tilting in favour of the investors, especially with its stock having declined so significantly in value. When gold bounces back, Eldorado's stock should soar.

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