Can This Gold Miner Ever Bounce Back?

Description

It has been a rough time for investors in **New Gold Inc.** (TSX:NGD)(NYSE:NGD), which has shed 39% of its market value since the start of 2018, or almost five times greater than the decline in gold. That can be attributed to a volley of disappointing results over the last year, including an almost US$30 million loss for the first quarter 2018. This has led some pundits to question whether the miner can ever successfully unlock value for investors.

Now what?

New Gold has four operating properties; the Rainy River mine in northwestern Ontario, the New Afton operation in British Columbia, the Mesquite mine in California, and the San Pedro property in Mexico. As part of its strategy focused on creating value at its core operations located in the Americas, New Gold elected to exit its Australian business, selling its Peak Mines to **Aurelia Metals Ltd.** for US$58 million. Even after the sale of those assets, New Gold has reserves of 14.7 million ounces of gold and 75.5 million of silver.

Despite the sale of the Peak Mines, the miner expects 2018 gold production to be around 30% higher than 2017 because of the Rainy River mine coming online. As at the end of the first quarter, New Gold appears on track to achieve that guidance, reporting gold production of 96,882 gold ounces, which was an impressive 59% higher than a year earlier.

Disappointingly, New Gold's expenses during the first quarter skyrocketed compared to the same period in 2017. All-in sustaining costs (AISCs) more than doubled to US$1,219 per ounce of gold produced, while total cash costs were US$558 an ounce, or 136% greater than a year earlier. That can be attributed to higher operating expenses caused by the ramp up of activity at Rainy River as well as increased general and administrative, sustaining capital, exploration, and reclamation expenditures.

Regardless of the sharp increase in AISCs during the first quarter, New Gold reiterated its 2018 guidance, including achieving AISCs of US$860-900 for the year. It will achieve this by reducing capital and exploration expenditures at its New Afton, Mesquite, and Cerro San Pedro mines as well as shrinking overall corporate general and administrative expenses. If New Gold is able to achieve its

2018 guidance, then it should see a solid increase in earnings and profitability, even after gold's latest weakness, giving its bottom line a healthy bump.

The miner also has a solid balance sheet, ending the first quarter with US$191 million in cash and long-term debt of just over US$1 billion which is a manageable 3.3 times EBITDA.

So what?

New Gold's recent history has disappointed investors, but with the Rainy River mine coming online, its gold production will expand significantly, more than offsetting the production lost because of earlier mine sales. It also leaves New Gold well positioned to benefit from the impending recovery in gold, which will occur because of the market jitters triggered by the emergence of an escalating trade war between the U.S. and China. The sharp pullback in New Gold's value has created an opportunity for investors seeking to bolster their exposure to gold and who are willing to speculate on the ability of the miner to meet its 2018 guidance.

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