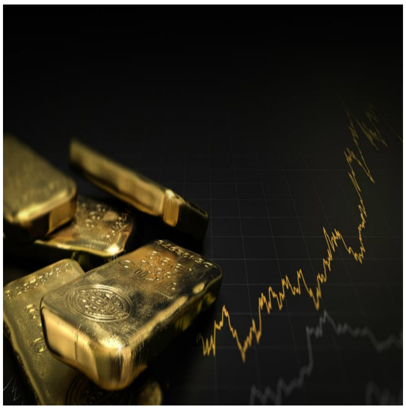

Is This Gold Miner a Deep Value Investment Opportunity?

Description

Gold has rallied sharply over the last week to be trading at just over US$1,200 an ounce. This is particularly important for gold miners because many have based their 2018 production, capital spending and earnings forecasts on gold averaging US$1,200 per ounce over the course of that year.

The yellow metal's latest rally will be a boon for many beaten down gold miners that have failed to perform despite firmer gold in the run-up to 2018.

One miner that has been treated particularly harshly by the market is **Eldorado Gold Corp.** (TSX:ELD)(NYSE:EGO). It has seen its market value plummet by a whopping 59% over the last year compared to gold, which has lost around 6%. The considerable decline in Eldorado's value has led some analysts to claim that the company is deeply undervalued and offers significant upside.

Now what?

Eldorado's woes stem from the ongoing problems with its Greek gold mining assets, which appear to be permanently stuck in limbo. The miner has experienced considerable delays at its Skouries project because the Greek government is refusing to provide the appropriate permits and forced Eldorado to arbitration.

This compelled the miner to place the Skouries site in care and maintenance, which is anticipated to cost US$3 million to US$5 million annually.

Eldorado also suspended its dividend payment from the first quarter 2018 onwards as it moved to shore up its balance sheet and preserve its considerable cash holdings.

The final blow for investors, which saw the market mark down Eldorado's stock even further, was the US$24 million loss reported for the second quarter 2018 compared to a US$11 million profit a year earlier. That occurred despite higher gold and was triggered by a blowout in costs as well as a series of large one-off increases in expenses and non-cash charges.

For the second quarter, Eldorado reported all-in sustaining costs of US$934 per gold ounce produced, which was 10% greater than the US$846 an ounce reported a year earlier. What isn't initially apparent is that the miner's total cash costs, which are a good measure of the costs associated with existing producing mines, were only US$610 per ounce of gold produced.

While this is a worrying 20% greater than the equivalent period in 2017, it is still well below Eldorado's average realized price of US$1,287 per gold ounce sold.

Those higher costs like Eldorado's earnings were negatively affected by a range of one-off non-cash charges, including a $26.5 million charge related to the leach pad inventory drawdown at its Kisladag mine in Turkey. There was also another charge of $19 million incurred because of adverse currency movements triggered by a weaker Turkish lira and Brazilian real.

Depreciation, depletion and amortization costs also rose because of flat production, further impacting costs and net income.

Despite the issues impacting its operations and financial performance, Eldorado was able to expand production which for the second quarter came to 99,105 gold ounces or a whopping 56% higher year over year.

As a result, Eldorado revised its 2018 production forecast upward to 330,000 to 340,000 ounces, which is up to 42% greater than the original guidance provided in January 2018.

The miner's solid balance sheet and considerable liquiditym including almost US$430 million of cash and cash equivalents, leaves it with considerable financial flexibility. That means it has the capability to weather a prolonged period of softer gold and continue developing its portfolio of projects.

It should be remembered that Eldorado has abundant gold reserves of 17 million ounces. Using an assumed gold price of US$1,200 an ounce and after deducting extraction costs, those reserves as well as debt have a value of roughly $6.50 per share, which is almost six times greater than Eldorado's current price.

This indicates the tremendous upside available for investors if Eldorado can successfully work through its problems and unlock the considerable value held by its assets.

So what?

Eldorado is a difficult gold miner to like. It has been struggling to resolve a range of issues relating to its mining operations that have significantly impacted it financial performance, which makes it a risky investment.

Nevertheless, the underlying fundamentals of its operations remain sound. And this, coupled with a solid balance sheet, growing production and the increasing likelihood that gold will remain firm makes it an attractively valued, but higher risk contrarian play on gold.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:EGO (Eldorado Gold Corporation)
2. TSX:ELD (Eldorado Gold Corporation)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/07/19
Date Created
2018/10/06
Author
mattdsmith