

After Rallying by 10% Over the Last Month, Is This Gold Miner a Worthwhile Investment?

Description

Gold may have recently sunk to its lowest level since January 2017, but some gold miners are not only well-positioned to weather the downturn, but will continue to unlock value for investors. One miner that has surprisingly managed to [turn its operations](#) around is **B2Gold Corp.** ([TSX:BTG](#))(NYSE:BTG).

It recently emerged as a senior gold miner after bringing the Fekola mine in Mali online and completing a range of upgrades at existing producing operations. There are signs that despite weaker gold and B2Gold rallying by 10% over the last month that there is further upside ahead for the miner.

Now what?

B2Gold reported some solid second quarter results that underscore the significant improvements made to its operations. Compared to a year earlier, gold production almost doubled to 240,000 ounces, a quarterly record that can be attributed to strong performances from the Fekola, Masbate and Otjikoto mines. It is the Fekola mine that was the key driver of this solid performance, as over the quarter it operated above plan producing 112,644 ounces of gold, which was 11% greater than forecast.

Fekola is proving to be an impressive asset to own. It has reserves of almost 3 million gold ounces with a notable average grade of 2.35 gram of gold per ton of ore, which is quite impressive for an open pit mine. Because of that high ore grade, Fekola has low operating costs that saw it report second quarter all-in sustaining costs (AISCs) of US\$445 per gold ounce produced.

And this, in conjunction with reduced costs at other operational mines, saw B2Gold reported some exceptional consolidated second quarter AISCs of US\$721 per ounce of gold produced. These are some of the lowest among senior gold miners and were a notable 26% lower than a year earlier and 17% below budget.

That highlights the profitability of B2Gold's operations even amid an environment in which gold is softening and has drifted below the all-important US\$1,200 an ounce mark.

Because of B2Gold's strong second quarter operational performance, the miner reported that cash flow from operating activities almost doubled compared to a year earlier and that net income shot-up by 11% year over year to US\$21 million. This solid improvement in its financial performance compared to the equivalent quarter in 2017 was achieved because of the significant increase in production, reduced costs, and a 3% year over year increase in the average realized sale price to US\$1,290 per gold ounce sold.

However, weaker gold poses a threat to many gold miners because most have based their reserve calculations on US\$1,200 an ounce or higher. Furthermore, analysts estimate that the industry wide marginal cost of production is only slightly lower at around US\$1,080 an ounce.

In the case of B2Gold, its reserves were calculated using an assumed average gold price of US\$1,250 per ounce. This means that should gold soften further and remain below US\$1,200 an ounce for a prolonged period, its reserves will be recalculated using a lower price, which would cause them to diminish in volume.

There is [every likelihood](#) that gold could fall to US\$1,100 an ounce or lower in coming months because of higher U.S. interest rates and a firmer dollar.

Nevertheless, the high ore grades at B2Gold's mines, the high quality of the miner's assets and its low AISCs means that its operations will remain profitable even if gold slumps further.

So what?

B2Gold performed poorly for some time, but the latest quarterly results indicate that the miner has made significant advances in enhancing its operations and unlocking value for investors, which has yet to be fully appreciated by the market.

When the considerable improvements in B2Gold's operations are considered along with the miner being down by 17% for the year to date, it shapes up as an attractive play on gold, particularly given that its value should appreciate even if the yellow metal remains weak.

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