



## Do the Latest Results Indicate That New Gold Inc. (TSX:NGD) Is Turning its Operations Around?

### Description

It has been a tough year for investors in intermediate gold miner **New Gold** (TSX:GLD)(NYSE:GLD). Despite gold only losing around 7% since the start of 2018, the miner has seen its stock collapse, plummeting by 73% because of shortfalls at its Rainy Creek mine and management revising its 2018 guidance downward. The miner, however, delivered a solid third quarter 2018, beating analyst estimates, indicating that the worst could be over and its operations are on the mend.

### Now what?

Gold production from continuing operations for the third quarter was 77,533 ounces, or 2.6 times greater than for the equivalent period a year earlier, while silver and copper production remained flat. Overall gold output came to 114,000 ounces, which was a 39% increase year over year. That significant spike in production can be attributed to its Rainy River mine, located in the mining-friendly jurisdiction of Canada, reaching commercial production during the fourth quarter 2017.

Nonetheless, expenses grew at a substantial clip to see all-in sustaining costs (AISCs) rise to US\$984 per ounce sold, which was almost four times greater than a year earlier.

That can be blamed on higher-than-expected costs relating to the Rainy River property, where New Gold continued to construct infrastructure, and invested additional capital to remedy a range of start-up issues. This includes implementing a short-term operational plan at the mine to mitigate a variety of complications arising from ramping up activity at Rainy River, so it can assume its mantle as New Gold's flagship asset. The plan is focused on optimizing capital allocation as well as improving the performance of milling activities.

As result of weaker gold and a significant increase in expenses, New Gold reported an adjusted net loss for continuing operations of just under US\$5 million, or US\$0.01 per share, compared to a net profit of almost US\$3 million for a year earlier. While that is a somewhat disappointing result, it still beat the consensus analyst estimate of a net loss of US\$0.03 per share for the quarter.

New Gold reiterated its revised 2018 guidance, where it expects annual gold production to be 415,000-480,000 ounces, which, while around 20% lower than the miner's original guidance for the year, is at the upper end 11% greater than 2017. That — along with New Gold's focus on driving greater efficiencies and lower expenses at Rainy River — bodes well for its full-year 2018 earnings, especially if gold rallies higher.

The industry view is that gold will remain firm over the remainder of 2018 and into 2019, despite higher interest rates and a stronger U.S. dollar weighing on the metal. This is because gold supply is plateauing, as quality high-volume gold deposits become increasingly difficult to find, which is being magnified by the marked reduction in capital spending during the last gold slump leading to less exploration activity.

There are also a range of geopolitical threats, including Trump's confrontational approach to trade and higher oil, that are weighing on the global economic outlook. Those emerging risks could crimp global growth and give gold a healthy bump if they develop into a full-blown crisis.

New Gold also has a solid balance ending the third quarter with US\$129 million of cash and equivalents, plus there is the US\$158 million in cash to be received from the sale of New Gold's Mesquite mine, which is expected to close during the fourth quarter 2018. Long-term debt at the end of the quarter was just under US\$940 million and has a well-laddered payment profile with the earlier repayment falling due in 2020 when New Gold's revolving credit facility matures.

### **So what?**

It is easy to understand why the market lost confidence in New Gold, triggering such a substantial loss in its value. The failings of the Rainy River property and emerging operational issues, which forced management to revise its 2018 annual guidance downward, sparked considerable concern in the market, particularly when that mine is New Gold's flagship asset. Because there are signs that the worst is behind the miner and that over coming months its performance will improve, the sharp sell-off of its stock has created an opportunity for risk-tolerant contrarian investors willing to bet on the success of Rainy River and higher gold.

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mattdsmith

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