Things Are Beginning to Look Up for This Badly Beaten Down Gold Miner

Description

It's been a tough stretch – up until recently that is – for **Eldorado Gold Corp** (TSX:ELD)(NYSE:EGO).

Eldorado stock is currently trading at less than $1 on the TSX Index following what has been an epic collapse in the company's stock price over the past eight years or so since commodity prices began tumbling back in 2011.

Since then, ELD has lost more than 95% of its value, significantly outpacing the decline of gold bullion itself, which has lost more than 37% of the value off its 2011 peak.

Yet there were several positive developments to come out of the company's third-quarter earnings report. Let's review those first and see if ELD stock isn't the proverbial "diamond," or maybe more aptly, gold nugget hiding in the rough.

First off, in the third quarter, Eldorado's board of directors announced that it given management the green light to go ahead with its plans to advance the Mill Project at its Kisladag mine.

The project will require a capital investment of an estimated $520 million, but carries with it an estimated net present value of $392 million based on a 5% discount rate and $1,300 price of gold.

Eldorado already has $385 million of cash sitting on its books and available liquidity of $635 million, including a $250 million line of credit, which was offset by only $594 of long-term debt versus $3,644 of shareholder's equity.

So the $520 price tag associated with the project shouldn't come as much of a problem. Meanwhile, the expected net positive value should add to shareholder returns.

On the call, management also stated that production for 2018 is running ahead of plan and revised its internal guidance higher for the remainder of the year, including projected increases for its Kisladag site, which are expected to more than offset slowdowns at its Olympias site.

The bad news, however, was that after conducting a feasibility study, the board of directors announced that it would be taking an impairment charge of $117 million associated with a review of the remaining useful life of the Kisladag mine, which was less than previously expected.

Bottom line

A stock like ELD certainly won't be for everybody.

Not only do stocks that trade under $5 usually have their own sets of risks beyond that of simply being less liquid than stocks trading at higher nominal prices, but as a miner that owns and operates assets in foreign jurisdictions, the company no doubt has a sizeable element of "tail risk" as well.

Yet this stock is deeply, deeply oversold and still maintains a solid balance sheet with reported shareholders equity standing at over $3,500 million backed by tangible assets.

The shares are presently trading at 16-year lows and the stock is valued at a mere fraction – just 15% – of its stated goodwill.

For those willing to take a stab at what could potentially be a multi-bagger if we were to see a recovery in the price of gold over the coming years, ELD might be worth a shot.

Fool on.

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
2025/06/30
Date Created
2018/11/17
Author
jphillips