



Is This Gold Miner a Sound Investment?

Description

Serial diluter of investor value **Gran Colombia Gold Corp.** (TSX:GCM) is once again touting for investors and seeking to attract further capital. The company, which is the largest underground miner in the Latin American nation of [Colombia](#), has a long history of overpromising and under delivering for investors while riding roughshod over local communities and acting solely in the interests of insiders. While Gran Colombia has made significant progress on improving its operations and strengthening its balance sheet, there are no clear indications that this has changed.

Nonetheless, the miner has performed strongly over the last year, seeing its stock soar by 32% compared to gold losing around 7%. This notable performance has attracted the attention of many investors seeking an opportunity to access outsized returns and outperform the market.

Overview

Gran Colombia owns and operates its flagship operations in Segovia to the northeast of Colombia's second largest city, Medellin. The miner has reserves of 660,000 gold ounces at Segovia and 3.9 million ounces of measured and indicated resources at its Marmato property located near the city of Manizales. While the lack of proven and probable gold reserves is of considerable concern, Gran Colombia's Marmato and Zancudo properties possess substantial potential, thus helping offset the risks associated with Gran Colombia's low level of reserves.

The miner has also focused on improving its capital structure, refinancing its 2020 and 2024 debentures as well as investing considerable capital in drilling activities at its Segovia properties to boost gold reserves.

Latest results are promising

Gran Colombia reported some strong third quarter 2018 results, thereby highlighting the underlying quality of its assets and the considerable progress made in improving its operations. Gold production for the period shot up by an impressive 54% year over year to 57,163 ounces, while all-in sustaining costs (ASICs) plunged by almost 9% to US\$888 per gold ounce produced.

This significant increase in gold output combined with lower expenses offset softer gold prices for the quarter and gave earnings a solid boost. Adjusted EBITDA surged by 78% compared to the equivalent period in 2017 to US\$25 million, while net income almost tripled to US\$10 million.

These strong results leave Gran Colombia well positioned to achieve its 2018 guidance, where it anticipates producing 210,000 to 220,000 gold ounces with average AISCs of less than US\$950 per ounce. If the miner can achieve this guidance, its earnings will receive a healthy bump now that gold has firmed to US\$1,238 an ounce.

Stronger balance sheet

Gran Colombia also finished the third quarter with US\$29.5 million in cash, which was nine-times greater than at the end of 2017. That robust growth in its cash holdings can be attributed to the miner's actions aimed at strengthening its balance sheet and improving its capital structure. Gran Colombia finished that period with long-term debt, including the liabilities associated with its warrants of US\$75 million which was US\$10 million greater than a year earlier.

Nonetheless, that debt is less than one-times trailing 12-month EBITDA, thereby indicating that it is very manageable and poses no risk to Gran Colombia should gold weaken further.

Should investors buy Gran Colombia?

Gran Colombia has been a very difficult stock to like for some time. It has a long history of destroying shareholder value and failing to maximise the potential of its operations. The low level of proven and probable reserves, as well as high AISCs along with a lack of community support for its Segovia operations create considerable concern about Gran Colombia's ability to unlock value for investors.

The latest quarter, however, indicates that the miner is performing strongly and will deliver some robust full-year 2018 results, which along with gold having rallied, should give its stock a further boost. While the potential upside may be limited, Gran Colombia could very well be a contrarian play on [higher gold](#) for risk tolerant investors.

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