



Does the Latest News Make This Gold Miner a Buy?

Description

It has been a tough year for investors in intermediate gold miner **Detour Gold** (TSX:DGC). Even after gold's latest rally, it is down by 16% over the last year. The miner's poor performance recently triggered a boardroom spill led by dissident shareholder and famed hedge fund manager John Paulson, who owns a nearly 6% interest in the miner. This saw the removal of CEO Michael Keyon and the replacement of five incumbent board members. That — along with firmer gold and an [improved outlook](#) for the precious metal — has sparked speculation that Detour's value will soar in coming months.

Paulson, unlike many other hedge fund managers, had invested heavily in gold and retained those investments despite poor fundamental indicators, such as a firmer U.S. dollar and higher interest rates boding poorly for the precious metal's outlook. Now that gold has rallied significantly since the end of November 2018, he is attempting to position Detour, so it can take full advantage of firmer prices and generate a solid return on his investment.

Quality gold mining assets

Detour owns and operates the Detour Lake open pit mine in northeastern Ontario, which has been assessed to have gold reserves of almost 16 million ounces at an average grade of 0.97 grams gold per tonne of ore (g/t). A key problem being experienced by the miner is poor production results since the start of 2018. Third-quarter production totaled 151,402 gold ounces, which, while 8% greater than the equivalent period a year earlier, was 2% lower than the previous quarter. That quarter-over-quarter decline in production can be attributed to lower recovery rates and mill outages caused by equipment failures.

The issues impacting production also caused costs to blowout. All-in sustaining costs (AISCs) for the period were US\$1,377 per gold ounce sold, which was a worrying 33% greater year over year, impacting Detour's profitability. That, along with weaker gold price, had a sharp impact on the miner's bottom line for the quarter with net earnings of \$0.07 per share more than a third lower than for the same period in 2017.

These matters, along with weaker gold and a poor outlook for the yellow metal, were weighing on Detour's market value.

Nonetheless, the miner has implemented a program aimed at alleviating these issues by investing in improved maintenance. Detour is also focused on introducing efficiencies aimed at reducing its AISCs, which will also fall as capital expenditures decrease once the projects focused in improving operational practices are completed.

Detour is also in the process of evaluating drilling targets at its Burntbush property located 70 km south of its Detour Lake mine. Those activities boost the exploration upside associated with the miner and over time should lead to further discoveries that will boost its mineral resources and reserves.

Solid balance sheet

Detour finished the third quarter 2018 in a healthy financial condition, holding US\$156 million in cash and US\$249 million of long-term debt, which is a very manageable 0.3 times trailing 12-month operating cash flow. That solid balance sheet means the miner is well positioned to continue funding the programs aimed at improving its operations while maintaining its exploration drilling program, which is targeting satellite gold deposits near the Detour Lake mill.

Is it time to buy Detour?

While I have been [bullish](#) on Detour in the past, there are signs that the boardroom spill will distract much-needed attention from the operational improvements required to reduce AISCs and boost profitability. There are signs that AISCs will fall going into 2019, and this — along with firmer gold — does bode well for greater profitability and higher earnings. Because Detour's shares have lost more value than many of its peers over the last year, it has created an opportunity for investors to acquire an attractively valued gold miner with a solid balance sheet and high-quality flagship asset located in a stable mining-friendly jurisdiction.

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