Is 2019 the Year Eldorado Gold Corp (TSX:ELD) Finally Goes Bankrupt?

Description

In January, shares of **Eldorado Gold Corp** (TSX:ELD)(NYSE:EGO) sank to 17-year lows. If you had bought shares in 2002, you would have made a 5,000% return by 2011, only to see those gains completely erased over the next 8 years. That's a tough pill to swallow.

Last quarter alone, the company lost more than $100 million. With a market capitalization of just $660 million, it's clear that the market is skeptical about Eldorado's long-term survival. The stock isn't even reacting to its best operating conditions in months, which is a strong indication that investors believe higher selling prices won't save the company.

For example, in early January of 2019, gold prices rose to their highest level since June of 2018. "One of the drivers that is pushing gold higher right now is the flight to safety, along with the dollar being sold off a bit," reported Michael Matousek, the head trader of U.S. Global Investors.

Eldorado stock, meanwhile, fell by roughly 40%.

Will Eldorado go under in 2019, as many influential investors expect?

Difficult decisions will be made very soon

Eldorado's management anticipates their new development projects will allow gold production to hit 600,000 ounces per year in 2021. While the quality of their projects substantiates these estimates, it's not clear how the company can get there without either diluting shareholders or wiping them out completely.

The company has $600 million in debt that comes due in November of 2020. They're also on the hook for $520 million to complete their Ki?lada? project. While management has frequently pointed to their existing line of credit, it terms out in 2020. An analyst on the company's recent quarterly conference call asked the obvious: "So I am just trying to figure out how you, at this point in time, assume that you are going to refinance that $600 million debt?"

Management's response was incredibly underwhelming.

"I think it's important to really look at this in right perspective," said Eldorado CFO Phil Yee. "I mean, we've been having active discussions with capital providers looking at different options, looking at different alternatives, but the real focus up until now has been completing the feasibility work at Ki?lada?. I mean, I think that's the big step, the major step as we progress toward looking at funding alternatives."

So basically, the company is focused on growing, but not necessarily protecting shareholder value. If that doesn't send alarm bells ringing, I'm not sure what would.

Stay far, far away

At this point, it's not too difficult to do the math. Eldorado's options aren't that diverse.

At best, the company can refinance its crushing debt load at much higher interest rates. While that would stem the tide, it's not clear that it can service this debt for very long. At worst, Eldorado will need to enter bankruptcy in order to continue running the business. In that scenario, it's likely that shareholders will end up with nothing.

The most probable path is somewhere in between. Expect Eldorado to lean on its existing line of credit to keep the company afloat until 2020. Then, expect it to refinance as much of that debt as possible on a long-term basis. It will likely need to support the refinancing with a share issuance, a massively dilutive action with shares at 17-year lows.

It's clear that Eldorado's management team is growing the company first and protecting shareholder wealth second. If you're looking for a beaten-down gold miner, look elsewhere.

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