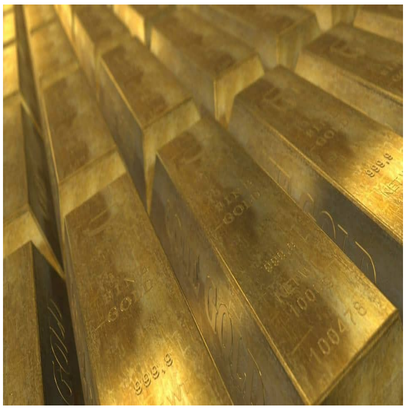

Should You Take a Chance on This Gold Stock Trading Under 10$?

Description

In the last quarter of 2018, gold stocks significantly outperformed the market. The TSX Gold Index gained 18.4%, while the broader TSX Index was in the red. It has been a while, but investors appear to be once again warming up to gold as a hedge against turbulent markets.

One company that stands to benefit from a rising gold price is **Pretium Resources** (TSX:PVG)(NYSE:PVG). In mid-December, the company announced it was repurchasing its 8% royalty stream from its Brucejack Mine. This flagship is a low-cost mine with all-in sustaining costs below industry averages. It was a welcomed move, as the company was able to do so without the need to raise additional equity.

Unfortunately, Pretium has gotten off to a dismal start to the year. It has been in the news for all of the wrong reasons, and its share price is down 20%. Is this reason for concern or a buying opportunity?

Lower-than-expected production

The first bit of bad news came on January 9, when the company announced full-year 2018 production that missed expectations. Brucejack produced 376,012 ounces of gold for the fiscal year — less than the 387,000-ounce result analysts were estimating. It was also 3% below the company's internal guidance for production of 380,000 ounces. Pretium's shares dipped 6% on the news.

Lost amid the production miss, Pretium received final permits to expand its Brucejack expansion. The permits will enable the company to increase production to 3,800 tonnes per day. The company is expected to provide timelines and guidance with respect to production ramp-up later in the quarter.

After the big production miss, expect the company's fourth-quarter earnings to miss current estimates.

Suspect trading activity

Only two days after releasing production guidance, the company announced it has "retained independent council to initiate an investigation of unusual trading activity in its shares." This is never a good sign, and its share price plunged 11% on the news.

At the heart of this issue was unusual trading activity in the days leading up to the company's production announcement. This isn't about publicly announced insider trading activity. A quick glance at the publicly announced insider trades does not reveal any red flags. It is important to note, however, that the company's share price plunged by 11% on January 9. There was significant selling pressure on double-than-average volume.

Why is this important? The company's production release only came out after the market close. Although it is definitely a concern, management should be applauded for immediately launching an investigation.

Foolish Takeaway

Pretium has had a hard time meeting production guidance. It reduced guidance in early 2018 from 387,000 to 380,000 on the low end and still came up short. The company, however, is now cash flow positive. After re-purchasing its streaming rights, it now owns 100% of the mine production. Although the company will no doubt grow year over year, estimates may be on the high end. Despite this, the company provides good value after its recent sell-off.

Although suspect trading activity is concerning, the company has taken action. Depending on what the investigation reveals, this should be a one-time event. That is not to say there is not considerable risk. Pretium is a one-mine show. Any blip in production at BruceJack will lead to significant price volatility. Investors looking at Pretium may want to consider waiting till after fourth-quarter results for greater clarity.

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