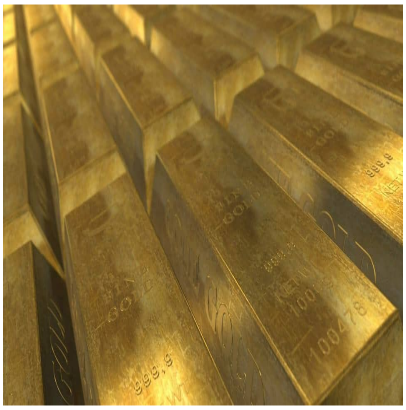

Get Ready for Gold's Next Leg Up by Buying This Attractively Valued Miner

Description

Gold surged sharply at the end of 2019, as growing unease over the outlook for the global economy and weaker data from China triggered a flight to safety among investors. Despite global stock markets bouncing back, there is every sign that gold will firm over coming months because of increasing economic and geopolitical uncertainty. There are also claims that the yellow metal has entered a new bull market. This will be especially beneficial for those miners that own quality operational low-cost gold mines and possess the ability to expand production at a solid clip.

An intermediate gold miner that stands out for these and other reasons is **Argonaut Gold** (TSX:AR), which, despite gold falling by only by 5% over the last year, has lost a whopping a 44%, creating an opportunity for investors. The market treated Argonaut's stock harshly because management indicated in its third-quarter 2018 results that full-year 2018 production would come in at the lower end of its annual guidance. The negative effect of that announcement was exacerbated by the statement that all-in sustaining costs (AISCs) would be at the higher end of its annual estimate of US$850-950 per ounce produced.

The expectation is that these factors will impact Argonaut's full-year earnings, but there are signs in the miner's third-quarter results that its operations and earnings will improve over the course of 2019.

Quality assets

Argonaut owns the El Castillo mining complex and La Colorada mine located in the mining-friendly jurisdiction of Mexico. It also has two development-stage projects: the open pit Magino property in Ontario and the Cerro del Gallo project in Mexico. Those properties give Argonaut reserves of 32.5 million gold ounces with an average grade of 0.61 grams of gold per tonne of ore (g/t).

After some disappointing results during the first half of 2018, the miner announced third-quarter results which showed some improvements in its operations. These included an impressive 41% year-over-year increase in gold production, which totaled 31,165 ounces. That remarkable surge in gold output can be attributed to commercial production commencing at the San Agustin mine in the Castillo mine complex in early October 2017.

As the tempo of operations at San Agustin was ramped up, production expanded at a rapid clip to see third-quarter gold output alone grow to 15,770 ounces, which was almost a stunning six times greater than a year earlier. This, in combination with the substantial expansion of silver output at the mine, saw San Antonio’s overall production expand to 16,526 gold equivalent ounces, which was more than five times greater than for them same period in 2017.

Importantly, AISCs for the quarter fell by 7% to US$98 per gold equivalent ounce sold, thereby boosting profitability. Argonaut achieved this decrease despite higher depreciation, depletion, and amortization costs coupled with non-cash impairments factored into cost of sales because of weaker gold. The key driver of those lower AISCs was the significant increase in gold output from San Agustin, which, because of economies of scale, caused the costs associated with each ounce produced to decrease.

Why buy Argonaut?

Nonetheless, there are signs that Argonaut’s gold production will grow during 2019, which, in combination with a focus on reducing operating expenses and firmer gold, will give earnings a healthy bump. Ongoing development projects at the operational San Antonio and La Colorada mines will bolster the volume of ore mined as well as processed, leading to higher gold and silver production. That combined with firmer gold will give earnings a healthy boost, which should act as a powerful tailwind for Argonaut’s stock.

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