



## Why Eldorado Gold Corp. (TSX:ELD) Is a Risky Investment

### Description

Higher gold, which sees the yellow metal recently breaking through the psychologically important US\$1,300 an ounce mark and claims that it has entered a new [bull market](#) is a boon for gold miners. The **VanEck Vectors Gold Miner ETF** – where the world's 10 largest listed gold miners make up around 60% of its holdings – has gained almost 12% over the last three months. Not all gold miners have benefited. Intermediate miner **Eldorado Gold Corp.** ([TSX:ELD](#))([NYSE:EGO](#)) has seen its value collapse by 37% over that period and is down by a whopping 60% over the last year.

### Share consolidation a harbinger of difficult times

Eldorado's shares had decreased so significantly in value that it recently completed a 5:1 share consolidation. Such a move is typically viewed negatively by the market despite significantly increasing the company's stock price and profile. It is also usually undertaken to ensure that a company complies with the ongoing listing requirements of an exchange. Many, including the **New York Stock Exchange** (NYSE), require a company to have a minimum market cap, number of shareholders, volume traded and price.

This was a key motivation for Eldorado's decision to consolidate its shares because the NYSE has listed it as being non-compliant with its continued listing criteria based on price. The NYSE requires that all listed companies' stocks maintains a minimum value of US\$1 per share, and if a company's shares close with a value of less than a US\$1 for 30 days consecutively, then the stock can be suspended and ultimately delisted. Because Eldorado's NYSE listed stock was trading at less than US\$1 per share for a sustained period, it needed to boost its value if it were to remain on the bourse and enjoy the substantial benefits that such a listing provides. This includes increased ease of access to capital and greater liquidity by being invested on the world's largest stock market.

A key fear associated with any stock consolidation is that the company's value post consolidation will drift lower toward its previous market value despite the higher value and its share float being smaller. This is occurring to Eldorado which has seen its market value decline by around 13% after closing at \$4 per share when trading on a consolidated basis began on 31 December 2018. That decline has occurred despite gold gaining around 2% over the same period. That certainly doesn't bode well for

investors.

It is easy to understand the considerable negative sentiment that has surrounded Eldorado for some time. The miner sold its Chinese assets in 2016 for US\$900 million as it moved to pivot the focus of its operations on Southeast Europe, but that strategy has had a poor outcome for El Dorado. The ongoing conflict with the Greek government over permitting for its Skouries project forced El Dorado to suspend operations and place the mine in care and maintenance, which will cost up to US\$5 million annually.

Those 2016 asset sales caused Eldorado's gold production to tumble. Third quarter 2018 output of 84,783 gold ounces was 28% lower than for the comparable period in 2016. And this, coupled with increased capital expenditures and high all-in sustaining costs (AISCs) of US\$1,112 per gold ounce produced weighed heavily on Eldorado's financial performance. That saw the miner report a third-quarter loss of US\$128 million, which was 30 times greater than the US\$4 million loss reported a year earlier.

While Eldorado reported that 2018 full-year gold output of 349,147 ounces exceeded annual production guidance of 90,000–333,000 ounces, full year AISCs were an unhealthy US\$990 per ounce, which, aside from being 7% higher than a year earlier, are impacting the miner's profitability.

Even after Eldorado finished 2018 with considerable liquidity, holding US\$293 million in cash and short-term investments as well as US\$50 million in undrawn credit, there are still doubts about its ability to meet its financial obligations. The miner needs US\$520 million to complete the K??lada? project and has US\$600 million of debt maturing in 2020. While this won't cause Eldorado to go bankrupt as some analysts fear, it leaves the miner facing a liquidity crunch that will likely force it to raise capital on unfavourable terms. This could be either through costly finance, an onerous streaming agreement or an equity offering on deeply discounted terms which would substantially dilute existing shareholders.

That means that there is no room for error at the commissioning of Eldorado's Lamaque mine, which is expected to reach commercial production during the first quarter of 2019, producing an average of 117,000 gold ounces over its initial seven-year mine life. That in conjunction with firmer gold, provides Eldorado with a crucial lifeline that could allow it to escape the looming liquidity crunch.

### **Is it time to buy Eldorado?**

Eldorado is a difficult to gold miner to like. There are considerable risks associated with its operations and the looming liquidity crunch coupled with recent quarterly losses don't bode well for its outlook, making it an unappealing play on [higher gold](#).

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

1. NYSE:EGO (Eldorado Gold Corporation)
2. TSX:ELD (Eldorado Gold Corporation)

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**Date**

2025/09/12

**Date Created**

2019/01/28

**Author**

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