Time to Buy This Intermediate Gold Miner?

Description

Gold rallied sharply in recent weeks to be up by 3% since the start of 2019 and to trade over the psychologically important US$1,300-an-ounce mark. There are signs that gold is heading higher in coming months because of rising economic and geopolitical uncertainty. Many analysts believe that the yellow metal has entered a new bull market and will reach US$1,350 per ounce before the end of the year. This is good news for gold miners with the **VanEck Vectors Gold Miners ETF** gaining 7% for the year to date.

However, not all miners have performed strongly. Intermediate gold producer **McEwen Mining** (TSX:MUX)(NYSE:MUX) has lost 9% since the start of 2019, failing to rally like many of its peers. This has created an opportunity for investors to bolster their exposure to gold by acquiring a quality gold miner that is trading at an attractive valuation.

Quality assets

McEwen Mining owns and operates three developed, producing gold mines: the El Gallo mine in Mexico, San Jose in Argentina, and the Black Fox Complex located in Canada. The miner also has two development-stage projects in the U.S. and Mexico as well as an exploration property in Argentina and another in Canada. McEwen Mining's properties give it reserves of 751,000 gold ounces and just over 10 million ounces of silver.

McEwen Mining recently announced its 2018 operational performance where it beat its 2018 production guidance. Full-year gold output was 135,124 ounces, which was 23% greater than a year earlier and almost 6% higher than the 128,000 ounces forecast for 2018. While 2018 silver production declined and was 6% lower than McEwen Mining's 2018 guidance, gold equivalent production shot up by 15% year over year to be 3% greater than the 171,000 ounces planned for the full year 2018. That bodes well for McEwen Mining's full-year earnings, particularly with gold rallying higher over the fourth quarter of 2018.

The decline in silver production can be attributed to the poor performance of the San Jose mine, where McEwen's share of production, totaling 87,607 gold equivalent ounces, was almost 4% lower than planned.

Nonetheless, this is an impressive asset in which McEwen Mining has a 49% interest. San Jose has proven and probable reserves of 313,000 gold ounces and almost 21 million ounces of silver with impressive grades of 6.92 grams of gold per tonne of ore (g/t) and 457 grams of silver.

One of McEwen Mining's key problems, which is responsible for the miner failing to rally despite firmer gold, is its high operating expenses. For 2017, it reported all-in sustaining costs (AISCs) of just over US$1,000 per gold equivalent ounce produced, and these are expected to be marginally higher for 2018.

McEwen Mining's AISCs should drop over coming years, because the miner is focused on unlocking operational synergies and reducing costs.

In fact, overall operating expenses should fall substantially during 2019 because of a notable reduction in capital for project development, which, at US$10.1 million, is less than an eighth of 2018. Exploration spending is also budgeted to be lower, while general and administrative expenses are forecast to fall by 5%.

The miner's Nevada Gold Bar project is on schedule to pour first gold in February 2019 and ramp-up to commercial production during March. Once operations commence, McEwen Mining's costs per gold ounce produced should fall because it is a low-cost operation with forecast AISCs of US$843 per ounce sold. That mine will add average production of 60,000 gold ounces annually to McEwen Mining's total gold output.

Each of these factors combined with higher gold will give McEwen Mining's 2019 earnings and cash flow a solid bump.

The miner also finished the third quarter 2018 with a solid balance sheet with almost US$41 million of cash on hand and US$50 million in long-term debt, which is quite manageable when it is considered that earnings will grow at a solid clip.

Why buy McEwen Mining?

High-cost gold miners like McEwen Mining are not the best investments to obtain focus to gold, but the company's solid balance sheet, quality portfolio of assets, and growing profitability make it an appealing play on higher gold. This is enhanced by the fact that McEwen Mining has yet to rally in response to firmer gold, making now the time for investors to buy.

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