



Attention Value Investors: This Might Be the Cheapest Stock on the TSX

Description

Sometimes I'll hear investors lament how expensive stock markets are, which usually ends with them being content to stay in cash until better opportunities arise. Unfortunately, many of these same investors will continue to hold during downturns, saying an even better chance to buy is just around the corner.

This is a terrible argument for a few different reasons. Dollar-cost averaging over the long term is in incredibly powerful way to invest. There's rarely a bad time to buy the best stocks in Canada — proven winners that have created wealth for investors for generations. And there are thousands of stocks on the TSX and TSX Venture exchanges. Surely you can find a few good investments given all the potential opportunities.

In fact, there are some incredibly cheap stocks out there. I [highlighted three in a recent article](#), but those companies are not alone. Here's another deep-value stock that's poised to soar this year.

The skinny

Gran Colombia Gold (TSX:GCM) might, on the surface, look like one of those precious metals value traps that claims it has billions worth of gold in the ground but never delivers on the promise.

This story is much different. Gran Colombia is a mid-tier gold producer that dug up 218,000 ounces of the yellow metal in 2018. The vast majority of its production (about 190,000 ounces) came from its Segovia mine but it also added approximately 25,000 ounces from its Marmato Project. Both of these mines are located in Colombia.

Segovia truly is a remarkable asset. It has consistently ranked as one of the highest-graded underground gold mines in the world — a metric that usually leads to high profitability. Management has also done a nice job bringing down costs over the last few years, and a weakening in the local currency has helped as well.

Total production has grown substantially, including a 25% jump year over year in 2018. 2019 likely

won't see that kind of growth again, but potential over the long term looks solid, with the company exploring various new projects.

Financial moves

Management has also been busy at work cleaning up Gran Colombia's balance sheet.

The company had three different sets of debentures. Some converted to common shares, while others were paid back using newly issued gold notes — debt that is secured by physical gold. The company also issued warrants. The transactions worked; debt is no longer a pressing issue, and Gran Colombia is currently sitting on US\$33 million in cash.

Now that the world has moved on from its debt, investors can focus on Gran Colombia's impressive earning power. The company is quietly generating significant earnings. In its last four quarters, the company earned US\$41 million in free cash flow, which converts to approximately \$54 million Canadian. Gran Colombia has a market cap of \$190 million. That means the company is trading at less than four times trailing free cash flow.

The stock is so cheap it has even gotten the attention of Bay Street analysts — folks who don't usually worry about smaller-cap gold plays. GMP Securities recently initiated a buy rating on the stock with a target price of \$6 per share, which represents more than 50% upside. Most importantly, GMP indicated to investors they should be able to count on Gran Colombia's impressive free cash flow generation to continue through 2019.

The bottom line

Even after a strong run-up — shares are up 86% in the last year — it's obvious Gran Colombia Gold is still cheap here. The company currently trades at less than four times trailing free cash flow. It could double and still trade at a cheap valuation.

The gold sector is starting to attract attention from deep-value investors, and with stocks as cheap as Gran Colombia, it's easy to see why.

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nelsonpsmith

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