Will Detour Gold Corporation (TSX:DGC) Triple Yet Again?

Description

If you're a brave investor, take a look at **Detour Gold Corporation** (TSX:DGC).

Over the past decade, shares have tripled four times. Each time, the stock returned to its former lows, but when conditions are right, opportunistic investors can make a hefty return in less than 12 months.

Currently, Detour Gold stock is trading close to a four-year low. Are shares ready to triple yet again?

Rolling the dice

Detour Gold owns and operates the Detour Lake mine, an open pit operation in northern Ontario. Currently, it's one of the largest mines in Canada. On average, the mine produces around 660,000 ounces of gold per year. With 16 million ounces of reserves, the project is expected to keep producing for another 23 years, peaking around the year 2038.

If everything goes to plan, management expects the mine to have a current value of $3.4 billion. That figure discounts all of the expected cash flows through the year 2040. With a market cap of just $2.36 billion, it seems like shares are trading at a discount to management's expectations.

Notably, however, that estimate assumes an average selling price of US$1,300 per ounce. While current prices of around US$1,310 support those assumptions, investors need to understand how Detour Gold is impacted by pricing fluctuations. It is these gyrations that cause the stock to swing so wildly.

In any given year, Detour Gold has all-in costs between US$1,175 and US$1,250 per ounce. So at current prices, the company is making a slim profit. Even a 10% drop could push it into money-losing territory.

It's this fine line that makes Detour Gold such a volatile stock. One month the mine could have a negative long-term value, and the next it could be worth five times as much.

Are you bullish on gold?

For those who believe gold prices will be on the rise—whether it's over the next few months, years, or decades—Detour Gold is the ideal way to profit. For example, if gold prices increase by 20%, the mine's underlying assets could double in expected value. However much gold prices increase, Detour Gold stock should increase by multiples more.

Be careful, however. Detour's volatility could easily work against you. From 1995 to 2010, Detour Gold's mine would have been worth $0 assuming current all-in costs. The mine was only reliably profitable following gold's dramatic rise over the past decade.

Even recent years have put the project in peril. For example, in 2015, gold prices fell close to US$1,000 per ounce. While Detour Gold's cash costs of around US$815 per ounce meant that the company remained solvent, shareholders needed higher selling prices to justify their investment.

If you're bullish on gold, buy Detour Gold stock. Otherwise, stay clear of these beaten-down shares. There are plenty of other options that don't have such slim margins for success.

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