Is it Time to Load Up on This Quality Intermediate Gold Miner?

Description

Gold remains firm, trading at over US$1,300 per ounce as fears of a looming U.S recession permeate financial markets. The inversion of the yield curve last week, where short-term treasury yields exceed long-term yields, indicated to many pundits that an economic downturn is on its way. This has sparked considerable interest in gold miners with gold long-viewed as the ultimate safe haven asset.

One intermediate gold miner that stands out for all the right reasons is **Argonaut Gold Inc.** (TSX:AR), which has gained 23% for the year to date compared to gold's 3%.

Quality assets and growing production

There is further upside ahead for Argonaut, which owns two producing gold mines in Mexico and three advanced stage exploration projects; two of these are in Mexico and the third is in the Magino property in Canada.

Those assets endow Argonaut with gold reserves of 3.8 million ounces, of which 56% are in Canada and the remaining 44% are in Mexico. Argonaut reported record 2018 production of 165,117 gold ounces, which represented a 30% increase over a year earlier.

The miner has also been steadily reducing its costs, reporting that all-in sustaining costs (AISCs) had fallen by 1% to US$912 per gold ounce sold.

Despite this growing gold output, firmer gold prices and lower AISCs, Argonaut reported a 2018 net loss of US$7.6 million compared to a profit of US$4 million a year earlier. However, the loss can be attributed to Argonaut clearing the decks by booking a series of write-downs and impairment charges for 2018 totalling US$24.5 million rather than operational failings.

Those write-downs have prepared the miner to report a solid 2019. Argonaut anticipates that annual production will be between 200,000 to 215,000 gold equivalent ounces, which at the midpoint represents a 26% increase over 2018. It has projected, however, that expenses will rise, forecasting AISCs of US$975 to US$1,075 per ounce sold, which at the upper end of that range represents an

18% increase year over year.

The increase in AISCs can be attributed to additional spending on developing its existing assets to ensure that production keeps growing at a healthy clip.

Higher costs in 2019 should be offset by the significant lift in gold output coupled with lower AISCs and firmer gold will give earnings a healthy boost. There is every likelihood that the yellow metal will rally higher over the course of the year. The Fed's softer stance on interest rates and normalizing monetary policy bodes well for the yellow metal. Meanwhile, fears of a recession, growing global economic uncertainty and rising geopolitical risk are further supporting higher gold.

Argonaut is focused on advancing its portfolio of assets through operational improvements, including expanding the crusher at its San Augustin mine to boost production. That development is expected to be completed during the third quarter 2019 and will add 10,000 tonnes daily to the mine's ability to process ore.

It is also advancing the Magino environmental approval and Cerro del Gallo pre-feasibility study, which, if successfully finalised, will bring those projects closer to development.

One aspect of Argonaut that enhances its appeal as an investment is its rock-solid balance sheet. It finished 2018 with US$15 million in cash and a mere US$13 million of debt,which is less than a quarter of Argonaut's 2018 cash flow from operations of US$58 million.

This indicates that the debt is very manageable and that the miner possesses considerable financial flexibility, including the capacity to take on additional debt if required, boding well for Argonaut to continue funding the development of its properties.

Why buy Argonaut?

Smaller intermediate gold miners like Argonaut can be risky investment because of the small number of operational mines. Nonetheless, the miner is an appealing investment because of its high-quality operational assets, portfolio of properties under development, growing gold production and robust balance sheet. These characteristics mean that Argonaut's stock will soar as gold rises in value, making now the time for risk tolerant investors to buy.

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