



Is This Canadian Gold Miner the Best Way to Hedge Against a Recession?

Description

Uncertainty continues to weigh heavily on the global economic outlook. Trump's adversarial approach to trade combined with fears of a looming recession and a no-deal Brexit have sparked considerable fear in financial markets globally, leading many investors to bolster their exposure to safe-haven assets.

What better safe-haven asset is there than gold? The yellow metal has been treated as a store of value during times of crisis, and these latest developments have caused gold to rally sharply since the end of May 2019. After soaring [to over](#) US\$1,550 per ounce earlier this month, a combination of profit taking and improved risk appetite among investors saw it fall sharply to under US\$1,500 an ounce, only to rally once again.

Regardless of the latest sharp decline, gold is still up by around 18% since the start of 2019, which is a boon for gold miners. One that is often ignored by investors is **Detour Gold** (TSX:DGC), which has significantly outstripped the gains made by the yellow metal to be up by 85% for the year to date.

Implementing efficiencies

For some time, Detour Gold has struggled to unlock value for shareholders, despite owning the Detour Lake open pit gold mine, which is rated as one of Canada's premier gold mining assets. After a disappointing slew of results, management made changes, including a rejuvenated board and new CEO as well as the introduction of a business improvement program aimed at improving operational performance.

There are signs that progress is being made to enhance Detour Gold's operations, but the miner's second-quarter 2019 results were disappointing. Gold production continued to decline down by 3% compared to the previous quarter and year over year to 150,079 ounces.

Costs were also higher with all-in sustaining costs (ASICs) increasing by 6% year over year to US\$1,143 per gold ounce sold. This can be blamed on lower production and a decrease in head grades, which fell by 12% year over year to 0.93 grams of gold per tonne of ore mined.

One notable improvement was Detour Gold's higher recovery rate for the quarter, which, at 93%, was a significant improvement over the 88.9% reported for the equivalent period a year earlier. This can be attributed to the ongoing improvements being made at Detour Gold's operations and the infrastructure which supports its mining activities.

The miner is looking for a wide range of business improvement across its operations. This includes reviewing capital expenditures and deferring non-essential spending, increasing process plant throughput, improving mining fleet productivity, and reducing costs. As further operational enhancements are implemented, production should grow, and AISCs will fall, enhancing Detour Gold's profitability, allowing it to more fully benefit from higher gold.

Detour Gold possesses a strong balance sheet, finishing the second quarter 2019 with US\$203 million in cash and long-term debt of a mere US\$200 million. This points to the considerable financial flexibility that Detour Gold possesses, which will support the planned improvements to its operations.

Foolish takeaway

Detour Gold has performed poorly over the last few years, failing to unlock the considerable potential held by its Detour Lake Mine. As a result, its stock has failed to keep pace with many of its peers, despite firmer gold. While the second-quarter results were disappointing, there were signs that the [strategic improvements](#) being made to the business are gaining traction.

For that reason, Detour Gold's performance will improve for the foreseeable future, which, combined with the growing uncertainty surrounding the global economic outlook, makes now the time for investors to consider buying the miner's stock.

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Author

mattdsmith

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