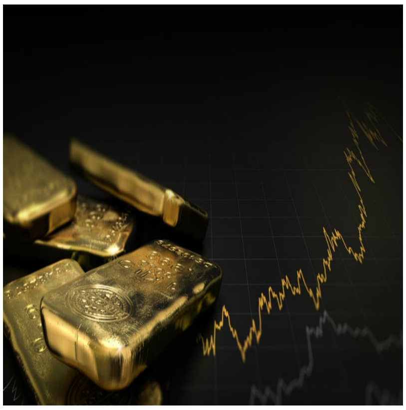

Buy This Beaten-Down Gold Miner to Profit in 2020

Description

Gold has pulled back sharply, after reaching a multi-year high of over US$1,550 per ounce in early September 2019, to trade at US$1,475 an ounce. This has tarnished much of the bullish optimism surrounding the outlook for the yellow metal and gold miners.

One miner that has been particularly roughly handled by the market is **New Gold** (TSX:NGD)(NYSE:NGD). It has gained a mere 7% since the start of the year, despite gold rising by just over 15%. This has created an opportunity for investors to obtain exposure to what is stacking up to be a compelling contrarian trade that will weatherproof their portfolios against growing geopolitical and economic uncertainty.

Improving outlook

New Gold's flagship asset is the troublesome Rainy River Gold Mine located in Ontario, where it is focused on completing a turnaround program aimed at boosting production and ore grades and reducing costs. Despite its troublesome history, Rainy River is on track to achieve its 2019 guidance, including gold production of 245,000 to 270,000 ounces and operating expenses of US$870 to US$950 per ounce.

Notably, it appears that full-year all-in sustaining costs (AISCs) will be lower than originally estimated. For the first nine months of 2018, AISCs have averaged US$1,413 per ounce compared to an annual average projection of US$1,690 to US$1,790 an ounce. That bodes well for better than expected earnings.

New Gold expects operating expenses and AISCs at the mine to fall further during 2020, as much of the work and other construction associated with the mine optimization plan is completed.

The miner's New Afton gold and copper mine in British Columbia is also expected to achieve its annual guidance. It's anticipated that costs will fall during 2020 because of improved efficiencies.

As a result, consolidated nine-month 2019 gold equivalent production rose by 2% year over year to

384,719 ounces, while operating expenses of US$695 an ounce were only 1.5%, and AISCs fell by just under 1% to US$1,161 per ounce. Those improved operating results combined with cost cutting saw New Gold's nine-month adjusted loss fall to US$0.03 per share compared to US$0.06 a year earlier.

As construction at Rainy River is completed, it should see capital expenditures for 2020 fall, which, combined with firmer gold and lower AISCs, will boost profitability during 2020.

New Gold has also worked hard to strengthen its balance sheet, boosting cash at the end of the third quarter 2019 by 72% year over year to US$179 million, while reducing debt by 7% to US$728 million.

Higher gold

There is every likelihood that gold will rally further during 2020. Despite growing optimism, the trade war between the world's two largest economies, the U.S. and China, has yet to be resolved, along with signs that it may widen, because Trump has stated he intends to place tariffs on steel and aluminium imports from Brazil and Argentina.

Manufacturing activity remains soft in many industrialized nations, and economic growth in the Eurozone has yet to pick up as expected. Geopolitical risk is also rising, particularly in emerging markets, with many nations convulsed by protests.

Those factors indicate that the global economic outlook is riven with uncertainty and any of those hazards could ignite a crisis that would trigger a global recession, which would give gold a solid boost because it is viewed as the ultimate safe-haven asset.

Foolish takeaway

New Gold is on track to see a significant improvement in its operations, leading to greater profitability and higher earnings in 2020. That, along with the likelihood of gold rallying further during the year, will give New Gold's stock a healthy boost, making now the time to buy.

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