2 Small-Cap Gold Stocks That Could Double in 2020

Description

Gold is widely considered to be one of the best opportunities for investors going into 2020, as many of the reasons for gold's price to appreciate are present. This has already caused a major increase in the price of the precious metal in 2019 and, consequently, a number of the mining companies, too.

Some of the most widely known gold-producing majors have led the way, while some of the lesser-known companies have lagged behind.

This has created a major opportunity for investors, especially if you are willing to take more of a risk and invest in turnaround companies or those with high margins in areas of the world with political uncertainty.

Two promising lesser-known gold stocks that present some of the best opportunities going into 2020 are **Argonaut Gold** (TSX:AR) and **Roxgold** (TSX:ROXG).

Argonaut Gold

Argonaut Gold is a small-cap miner that will do roughly 200,000 ounces of production this year. It has five total mines: three in the exploration and development phase and two that are already producing. One of the exploration mines is located in Canada with the other four in Mexico.

The company has been focusing on maintaining production levels while reducing its operating costs and capital expenditures in order to increase its free cash flow.

The lower costs and increased cash flow will help to fund Argonaut's expansion and bring new mines online, which are expected to have lower costs themselves.

This will lower Argonaut's overall consolidated costs per ounce that it produces and help to drive better margins and more profit.

It has roughly $650 million in development assets today, but estimates that every $100 increase in the price of gold increases its development assets by roughly $140 million.

The stock is also extremely cheap both from a metrics' point of view and compared to a number of its peers in the industry.

Its price to net asset value is just 0.5 times, and its price to 2019 estimated cash flow of just 3.1 times — both extremely low and some of the lowest in the industry.

Going forward, its number one priority is to lower costs, but Argonaut is also focused on de-risking its exploration mines and improving its balance sheet.

Roxgold

Roxgold is also a small-cap company; it's estimating it will do roughly 150,000 ounces of production in 2019. The company has two mines that it operates, both located in West Africa, one in Burkina Faso and the other in Cote d'Ivoire.

The locations pose some risk due to the political uncertainty in that region of the world; however, it also exposes the company to very cheap production, which gives it an impressive operating margin. It's all-in sales costs are extremely cheap at just $795, giving it major profit margins, especially with gold selling for around $1,500.

In the first nine months of 2019, its cash flow from mining operations was $68 million, or $0.18 a share. On an annualized basis, that would be $0.24 a share, giving it a current price to operating cash flow of just four times.

It continues to focus on keeping its costs low going into 2020, as its estimated sustaining capital is just $30-$35 million with roughly $10 million of exploration capital expenditures.

It's been taking major advantage of the increased gold prices. In the third quarter of 2019, it sold 9% more volume of gold than in the third quarter of 2018, yet its revenue increased by 32% and its adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) grew by 44%.

This is all thanks to a 23% increase in its average realized gold price sold, which was $1,481 in the third quarter of 2019 versus $1,207 in the same quarter last year.

Bottom line

With the gold price likely to continue increasing over the next few years, both these stocks offer impressive opportunities for investors to go gain some leveraged exposure.

There is more opportunity with Argonaut, but some of that is dependent on its execution of its transformation plans. Roxgold isn't as undervalued, but it already has low-cost operations and strong margins, so any increase to the price of gold is essentially pure profit.

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