This Tiny Gold Stock Looks Like the Hottest Turnaround Story of 2020

Description

Gold stocks are well-known for their exponential gains. When conditions are right, these stocks can rise in value by 500% or more.

What goes up must come down, however. That adage is especially true for resource companies. If you catch these stocks at the wrong time, your portfolio could be in trouble.

Gold stocks aren't for everyone, but if you want major gains, this is the place to shop. By sizing your position carefully, you can add significant upside potential to your portfolio without betting the farm.

If you want to put some money to work in 2020, there are few better options than **Guyana Goldfields Inc.** (TSX:GUY).

This $125 million gold stock has been through its fair share of ups and downs. From 2004 to 2007, shares rose by over 1,000%. Over the next 12 months, they gave up those gains entirely. From 2009 to 2010, shares rose by 1,000% again, only to give up the gains shortly after.

The most recent spike was in 2016, when shares quadrupled in six months. What happened after? You guessed it: the stock sank back to its former lows.

Right now, Guyana stock is sitting within the range of every historical price surge. Can shares skyrocket in 2020?

Here's the deal

In December of 2013, with shares hovering close to $2, Guyana stock was about to experience a multi-year rise. That month, Guyana's board of directors approved $238 million in spending to bring its Aurora project to full production. Once producing, this expansion had the potential to make the company a billion dollar enterprise.

And that's exactly what happened, at least according to expectations. By 2016, shares surpassed the

$10 mark, officially giving Guyana a valuation of over $1 billion. But there was a flaw: management had mismanaged its resource model. In reality, its reserves held significantly less gold than investors were told.

“When Guyana updated its resource model this year, proven and probable reserves of gold fell by 1.69 million ounces,” I wrote in 2019. “In total, its gold reserves fell by 43%. The projected life of the mine was lowered to just 13 years.”

As can be expected, the stock cratered. This summer, the stock dipped to historical lows, with reports surfacing that executives were working with **Royal Bank of Canada** to explore an outright sale of the company.

In October, shares fell by another 30% after the Aurora mine failed even to meet lowered expectations. In the third quarter, it produced 22,100 ounces of gold, with all-in costs of $1,882 per ounce, putting it deep into loss-making territory. Cash costs were only $1,372 per ounce, so the company is still able to survive, but the economic viability of the mine is now completely in doubt.

How to bet

By this point, you might be thinking, “Why would I ever want to own this stock?” Indeed, nearly every other potential investor has asked themselves the same thing. This dynamic is exactly why shares look like a buy.

In November, Guyana appointed former **SSR Mining Inc** executive Alan Pangbourne as president and CEO. Pangbourne brings 35 years of experience to the company, and more importantly, has a record of success. Over the last five years, shares of SSR Mining have increased by 300%, valuing the company above $3 billion.

It’s difficult to imagine Pangbourne would want to join a sinking ship. Guyana still has $25 million in cash on hand and has produced positive operating cash flow each of the last five quarters. The stock is trading at bankruptcy prices, but that’s far from a certainty.

From 2015 to 2017, the company earned a combined $96 million in profit, most of which was generated from its current asset base. The reset in expectations has been difficult, but this company is still more than capable of generating a profit. With its market cap down to $125 million, the lucrative upside potential could outweigh the downside risk, just be sure to size this position properly.

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