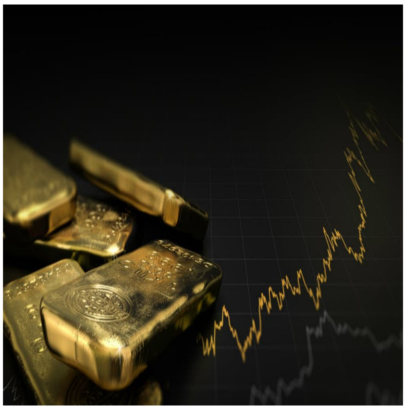

This TSX Gold Stock Is Up More Than 115% in the Past Year

Description

Gold has been one of the most popular investments over the last 12 months, as many investors seek safe-haven assets ahead of what experts are saying will be an inevitable recession sooner rather than later.

This has led the price of gold to rise by over 20% the last 12 months, a substantial increase for the precious metal.

As you would expect, gold mining stocks, which are leveraged heavily to the price of gold, have been the main beneficiary of the increase in gold prices, as the **iShares Global Gold Index ETF**, a fund that tracks a number of top gold mining companies, is up by more than 31% over that same stretch.

To give you an example of typical leverage of a gold company, if it costs a hypothetical company $1,250 to produce an ounce of gold and its average selling price is $1,350, the company earns a $100 per ounce profit.

But if the price of gold increases from $1,350 to $1,500 — an 11% increase — the company's profit would increase from $100 to $250, a 150% increase. That's why gold stocks appreciate so quickly as gold's price is rising.

One of the best gold stocks on the TSX is **Equinox Gold Corp** (TSX:EQX) and its share price shows exactly what the company is capable of.

As of Friday's close, over the last year the stock was up more than 116%. The company made an acquisition in December that really strengthened its business going forward, and that's contributed to the massive rally in the shares.

However, the majority of the increase is due to the increase in the price of gold coupled with the rapidly expanding margins that Equinox is seeing because of it.

In the third quarter of 2019 as the price of gold had risen considerably, Equinox had an operating margin of roughly 29% and a net income margin of 8.8%.

Keep in mind that Equinox is still a relatively new company that only began production in 2018. This means that the company is still ramping up its production rapidly each year, which should help to drive down costs and scale the business.

The cost reduction would already help Equinox to grow its margins, but if the price of gold continues to rise as many expect, the potential for Equinox could be massive.

Furthermore, because the company is growing its production levels, the company will be growing its revenue, so on top of costs being reduced, the price of gold likely increasing further and the company increasing production levels, over the next few years, investors can expect major returns from Equinox.

As of 2019, the company had guidance to produce roughly 200,000 ounces this year, with plans to ramp that up to one million ounces a year by 2023.

This has all been given a big boost by its acquisition of **Leagold Mining Corp,** which was expected to give Equinox a 700,000-ounce annual production run rate by the end of 2019.

It's also expected that the company will now conservatively do US$350 million in earnings before interest taxes depreciation and amortization (EBITDA) in 2020, another reason why this undervalued stock has been rallying so fast.

Back at the end of December, I wrote about how I thought that Equinox could double in 2020, and since then as of the time of writing the stock is already up nearly 20%.

If it continues at this pace, the stock could gain nearly 150% in 2020. You'll want to buy some shares soon so you don't miss out on any more upside as well as helping to protect your portfolio from the downside in the process.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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