



Why This Small-Cap Growth Stock Could Realistically Double in 2020

Description

Gold prices have been rallying for a few months now. As a result, gold miner stocks have exhibited handsome movement. However, if you are worried about missing the rally, it's still not too late. Contract drilling services company **Major Drilling Group** ([TSX:MDI](#)) has shown sustained weakness in the last few months. Interestingly, upbeat yellow metal prices could uplift this drilling services company's fortunes.

The mining industry in the early stages of recovery

Though broad market weakness and subdued market sentiment in the mining industry have weighed on MDI, it seems to be in the early stages of recovery now. Higher gold prices have already started showing signs of optimism in the industry. Many miners have increased their exploration budgets for the year.

Notably, gold drilling generates more than 50% of Major Drilling's total revenues. Thus, higher spending by exploration and producer companies is a huge positive for the company. Generally, there is a time lag involved between spending decisions of exploration companies and the translation of those in drillers' revenues.

Importantly, Major Drilling has been reporting solid top-line growth in the last few years. Its revenues increased by 13% compounded annually in the last three years, despite a muted sentiment. Subdued market conditions led to miners using fewer of Major Drilling's equipment and services.

The company has been unprofitable in all these years. However, it should be noted that its losses have consistently narrowed in the last three years. For the last 12 months, the company reported a net loss of \$5 million on the total revenues of \$421 million.

Operational efficiency

The company has a competitive advantage of specialized drilling, which is a significant barrier for new

entrants. As per the company, all the easily approachable mineral reserves all over the world are being depleted. New deposits will now be available in the areas that are difficult to access. In such areas, Major Drilling's specialized drilling, such as deep-hole drilling, high altitude drilling, and directional drilling comes in handy.

Major Drilling Group acquired a peer Norex Drilling last year. With this acquisition, it is expected to gain a strong position in the surface and underground exploration in an abundant northeastern Ontario region with this purchase.

Discounted valuation

[Broad market weakness](#) has been weighing on the MDI stock since last month. It has corrected almost 50% so far this year. It is trading 10 times its estimated earnings for the next 12 months. The stock looks attractively valued at the moment.

Analysts expect the company to turn profitable in fiscal 2020. MDI follows May to April fiscal year.

The recent weakness in MDI stock has pushed it to record oversold levels. It is trading at an RSI (Relative Strength Index) of eight, which indicates a reversal in the stock direction in the short term.

Being in a cyclical industry, Major Drilling was notably weak in the last few years. However, as gold prices are consistently increasing, things have started to change. Higher spending plans by explorers and producers could be a substantially positive development for companies such as Major Drilling. Aggressive investors could pounce on this [opportunity amid the recent correction](#).

CATEGORY

1. Investing
2. Metals and Mining Stocks

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/09/11

Date Created

2020/03/16

Author

vinitkularni20

default watermark