This Gold Miner Will Soar Despite Coronavirus

Description

Gold has been one of the few assets to perform strongly since the WHO announced a pandemic in March 2020. The yellow metal has gained 14% for the year to date to trading at US$1,731 an ounce. Despite higher gold, some Canadian gold miners have seen their stock soften since the start of the year because of the impact of the coronavirus on operations. That has created an opportunity to acquire quality gold mining stocks at attractive valuations.

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One Canadian gold miner that stands out is **Dundee Precious Metals** (TSX:DPM). It is up 32% since the start of 2020 beating gold and the **S&P/TSX Composite Index**.

There are signs that Dundee Precious Metals will deliver further value for shareholders despite the impact of the coronavirus.

Strong performance

Dundee Precious Metals reported some solid first-quarter 2020 results. Gold production shot up by a notable 70% to 73,000 ounces. It announced industry low all-in sustaining costs (AISCs) of US$593 per ounce, which were 28% lower year over year. This highlights Dundee Precious Metals's considerable profitability in an operating environment where gold is selling at US$1,735 an ounce, or almost triple its AISCs per ounce mined.

As a result, net earnings surged to US$43 million compared to a US$1.5 million loss a year earlier.

Notably, for a miner operating in a capital-intensive industry, Dundee Precious Metals's free cash flow almost quintupled to US$49 million.

As a result, the gold miner finished the first quarter in a solid financial position. That included US$13 million in cash on Dundee Precious Metals's balance sheet. The miner also paid off its debt during the quarter, finishing the period with a debt-free balance sheet, which is a notable achievement for a gold miner.

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This endows Dundee Precious Metals with considerable financial flexibility, which is important to possess in the current uncertain operating environment.

Gold and earnings to soar

Dundee Precious Metals is one of the few gold miners where its assets continue to operate within its annual 2020 guidance, boding well for its full-year performance. As a result, Dundee Precious Metals is on track to meet its annual guidance, including gold output growing by up to 30% to 299,000 ounces and AISCs of as low as US$700 an ounce sold.

Higher gold is here to stay. The considerable uncertainty sparked by the coronavirus pandemic has created a favourable climate for the precious metal. This is because gold is considered to be a hedge against financial crises and economic slumps.

Some analysts are tipping that gold could surge to as high as US$3,000 an ounce over the next 18 months. They believe the value of fiat currencies will be debased by the extraordinary amounts of economic stimulus unleashed by governments around the world to fight a coronavirus recession.

Foolish takeaway

Growing production coupled with low AISCs and higher gold prices will boost give Dundee Precious Metals earnings. This will lift its market value, causing the gold miner's stock to rally. While waiting for this to occur, you will be rewarded by the miner's recently initiated dividend, which has a projected annual yield of 1.5%. That payment appears sustainable with a projected low payout ratio of 33% of net income. Dundee Precious Metals growing earnings and increased profitability further enhances the dividend's sustainability.

CATEGORY

1. Coronavirus
2. Investing
3. Metals and Mining Stocks

TICKERS GLOBAL

1. TSX:DPM (Dundee Precious Metals Inc.)

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