



Got \$1,000? Buy This Colombian Gold Stock Today

Description

Gold mining stocks have been on fire since the coronavirus pandemic was announced and the stock market crashed in March 2020. Gold is one of the few assets to perform strongly over that period, as gold is considered the ideal defensive asset.

Since the start of 2020, gold has soared by 14% propelling many gold miners higher. One that has lagged [its peers](#) is **Gran Colombia Gold** (TSX:GCM), which has gained just 17%.



This, along with the potential held by its gold assets and bullishness surrounding gold makes now the time to buy Gran Colombia.

Why did this Colombian gold stock fail to keep pace?

A key reason for Gran Colombia's poor performance relative to many similar sized gold miners is that it recently elected to abandon its acquisition of **Guyana Goldfields** (TSX:GUY). While the market may have marked it down for that development, it's a good decision for Gran Colombia.

Guyana owns assets of questionable quality in an unreliable jurisdiction. The company has been beset by a raft of problems, including lacking the capital to execute its development plans, overstating its gold reserves and high operating costs.

Guyana is a high cost operator, which until gold's latest rally was unprofitable. In 2019 Guyana reported cash costs before royalties of US\$1,025 per ounce mined and all-in sustaining costs (AISCs) of US\$1,490. That saw Guyana report a full year 2019 US\$263 million loss.

For those reasons, the deal was a poor one for Gran Colombia. Guyana's poor numbers are in stark contrast to Gran Colombia's which is a significantly lower cost operator.

Solid financial results

Colombian gold stocks have been ignored by the market for some time. Gran Colombia, however, reported some solid first-quarter 2020 results. The miner reported cash costs of US\$667 per ounce mined and AISCs of US\$890. This highlights the miner's considerable profitability in an operating environment where it received an average sale price of US\$1,570 an ounce during the quarter.

That saw Gran Colombia report some notable first quarter numbers. Quarterly EBITDA shot up by a remarkable 43% year over year to US\$50 million, while net income of US\$24 million was three times greater.

Impressively, Gran Colombia generated almost US\$18 million in free cash flow for the quarter.

Disappointingly, Gran Colombia's first quarter gold production declined by 7% year over year to 56,247 ounces.

Second-quarter production is expected to be lower because of Colombia's national quarantine, which the government implemented in late March as a response to the coronavirus pandemic, thereby limiting Gran Colombia's ability to sustain operations at its flagship Segovia mine.

Gold's latest rally, which sees it trading at US\$1,730 per ounce, will offset lost revenue from lower production and should give Gran Colombia's second-quarter earnings a solid lift.

Importantly for a smaller mid-tier Colombian gold miner operating in a demanding jurisdiction, Gran Colombia finished the first quarter with a solid balance sheet. It had cash just shy of US\$100 million, significantly exceeding its long-term debt and lease obligations of US\$49 million.

For the aforementioned reasons, Gran Colombia has considerable financial flexibility — a particularly positive attribute in a capital-intensive industry facing an uncertain operating environment.

Quality Colombian gold assets

Another particularly appealing aspect of Gran Colombia is the quality of its flagship Segovia gold mine. The mine, located near Colombia's second-largest city of Medellin, has reserves of 670,000 gold ounces at an impressive average grade of 10.5 grams of gold per tonne of ore (g/t) — a high grade in comparison to many other mines and important to note because the higher the grade the more economic it is to extract the gold.

Those reserves and Gran Colombia's solid balance sheet give it a net asset value (NAV) of \$10.40 per share. The miner is currently trading at a deep 60% discount to that NAV highlighting the considerable upside ahead, making now the time to buy.

Foolish takeaway

Colombian gold stocks have failed to attract attention from investors despite their considerable potential. Unlike many other gold stocks, Gran Colombia has failed to rally strongly despite gold surging to over US\$1,730 an ounce.

This has created an opportunity to acquire a quality mid-tier gold miner at an attractive valuation, which will soar higher as [gold rallies](#).

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