



Gold Resource Corp. (GORO)

Updated December 5th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$3.30	5 Year CAGR Estimate:	1.2%	Market Cap:	\$235 M
Fair Value Price:	\$0.60	5 Year Growth Estimate:	40.0%	Ex-Dividend Date:	12/10/2020
% Fair Value:	550%	5 Year Valuation Multiple Estimate:	-28.9%	Dividend Payment Date:	12/23/2020
Dividend Yield:	1.2%	5 Year Price Target	\$3.20	Years Of Dividend Growth:	2
Dividend Risk Score:	F	Retirement Suitability Score:	F	Last Dividend Increase:	33.3%

Overview & Current Events

Gold Resource Corp. (GORO) is a producer of gold and silver, with operations in two mining units, in Oaxaca (Mexico) and in Nevada (USA). It has a market capitalization of \$235 million. On October 5th, 2020, Gold Resource announced its intention to spin-off its Nevada mining unit in Q1-2021 in order to unlock shareholder value, as this mining unit currently has lower production but much higher growth potential than the mining unit in Oaxaca.

Gold Resource boasts of having paid \$115 million in consecutive monthly dividends since July-2010. As this amount is nearly half of the market cap of the stock, it may seem enticing but investors should note that most dividends were paid in 2010-2013, when the company was producing much more output and gold and silver prices were near record levels. As a commodity producer, Gold Resource is extremely sensitive to the dramatic swings of the prices of gold and silver.

Gold Resource is greatly affected by the coronavirus crisis in two different ways. First of all, most countries have announced huge stimulus programs in an effort to offset the severe global recession caused by the pandemic. This has led the price of gold to surge to a new all-time high this year, thus benefiting Gold Resource. On the other hand, the company was forced to shut down its operations in Mexico for two months due to social distancing measures and thus its gold production in Mexico has plunged -38% in the first nine months of the year.

In early November, Gold Resource reported (11/2/2020) financial results for the third quarter of fiscal 2020. The sharp decline in the production in Oaxaca due to COVID-19 measures was more than offset by record production in Nevada. As a result, revenue grew 5.5% over last year's quarter and earnings-per-share rose from \$0.05 to \$0.07. Thanks to the strong performance in Nevada mining unit, management stated that the company remains on track to reach its target of annual production of 40,000 gold ounces in Nevada in 2021.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	-\$0.46	\$1.03	\$0.60	\$0.00	\$0.30	\$0.06	\$0.08	\$0.07	\$0.16	\$0.09	\$0.04	\$0.22
DPS	\$0.15	\$0.48	\$0.68	\$0.48	\$0.12	\$0.12	\$0.03	\$0.02	\$0.02	\$0.03	\$0.04	\$0.06
Shares¹	50.0	56.4	56.3	55.3	54.6	54.3	55.7	57.6	58.4	64.0	71.0	80.0

The mine in Oaxaca, Mexico, is the flagship mine of Gold Resource but it is not likely to grow its production meaningfully in the upcoming years. Gold Resource expects the annual production in this mine to be about 8% lower than it was in 2019 in the years 2021-2023. On the other hand, the mining unit in Nevada is expected to nearly quadruple its output between 2019 and 2021 and maintain flat output from 2021 to 2023. Overall, the production of Gold Resource is expected to grow from 40,000 gold ounces in 2019 to 67,000 ounces in 2021 and remain at that level until at least 2023.

However, the performance record shown in the above table is a stern reminder of the extreme sensitivity of Gold Resource to the prices of gold and silver. Since 2011, its earnings-per-share and its stock price have plunged -91% and -88%, respectively. Nevertheless, we view the commodity prices that prevailed in 2019 as good long-term benchmarks. We thus expect high earnings growth from Gold Resource thanks to strong production growth in the upcoming years.

¹ In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	---	23.5	36.7	---	15.9	47.0	49.6	59.7	31.9	43.2	82.5	15.0
Avg. Yld.	1.0%	2.0%	3.1%	5.3%	2.5%	4.3%	0.8%	0.5%	0.4%	0.8%	1.2%	2.0%

Due to the plunge in earnings caused by the pandemic this year, Gold Resource is currently trading at an extreme price-to-earnings ratio of 82.5. This valuation level is much higher than its 10-year average price-to-earnings ratio of 38.4, which is still excessive but can be attributed to the expected growth in the upcoming years. As soon as this growth materializes, we expect the stock to trade at an earnings multiple around 15.0. If this occurs, the stock will incur a -28.9% annualized drag in its returns, which will offset our artificially high expected earnings-per-share growth rate.

Safety, Quality, Competitive Advantage, & Recession Resiliency

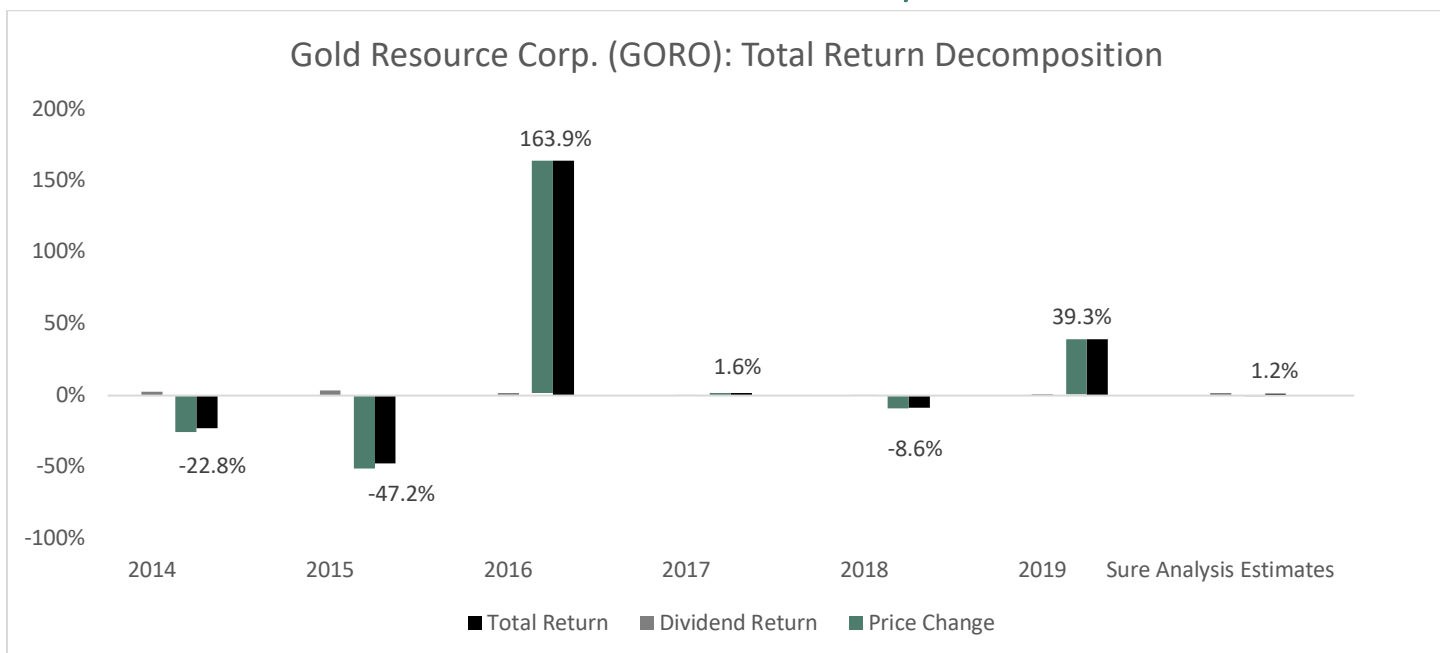
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	47%	113%	---	40%	200%	38%	29%	13%	33%	100%	30%

As a commodity producer, Gold Resource lacks a meaningful competitive advantage. Instead, it is extremely sensitive to the gyrations of the prices of gold and silver and hence it is unsuitable for income-oriented investors, who seek a reliable income stream. The company pays monthly dividends, which may entice some investors, but the -92% plunge of the dividend in the last 9 years is a stern reminder of the vulnerability of the company to the commodity cycles.

Final Thoughts & Recommendation

Gold Resource is about to perform a spin-off of its Nevada unit, which has exciting growth prospects ahead. Thanks to its promising growth potential and the nearly all-time high price of gold and silver, the stock may offer high profits in the short run. However, we believe that the stock is richly valued and thus may offer a poor 5-year return. This return is not adequate to compensate investors for the high cyclicality of the stock and its vulnerability to low prices of gold and silver, which are beyond the control of the company. We thus rate the stock as a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	15	105	132	126	115	93	83	110	115	135
Gross Profit	8	81	88	58	51	30	22	42	34	29
Gross Margin	54.0%	76.6%	66.6%	46.3%	44.1%	32.7%	27.0%	38.2%	29.2%	21.5%
SG&A Exp.	7	9	14	16	12	10	10	8	9	10
D&A Exp.	0	1	---	---	---	9	13	15	15	23
Operating Profit	-23	46	50	10	32	13	8	30	18	15
Operating Margin	-155%	43.4%	37.7%	8.2%	27.4%	14.1%	9.7%	26.8%	15.8%	10.8%
Net Profit	-23	58	34	5	15	3	4	4	9	6
Net Margin	-156%	55.5%	25.5%	4.2%	13.0%	3.3%	5.3%	3.8%	8.1%	4.3%
Free Cash Flow	-26	34	27	0	20	-7	3	10	-18	-18
Income Tax	---	-12	13	4	16	7	5	24	7	9

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	63	115	106	92	106	106	118	133	150	193
Cash & Equivalents	48	52	36	15	28	13	14	22	8	11
Accounts Receivable	1	14	6	2	1	0	1	3	2	8
Inventories	3	4	8	7	7	9	9	12	14	24
Total Liabilities	9	28	16	17	18	18	11	21	23	35
Accounts Payable	5	2	3	4	6	12	5	7	12	14
Long-Term Debt	-	-	-	-	-	-	-	2	2	2
Shareholder's Equity	54	87	90	75	88	89	107	112	127	158
D/E Ratio	-	-	-	-	-	-	-	0.02	0.02	0.01

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	-54.0%	65.6%	30.5%	5.4%	15.2%	2.9%	3.9%	3.3%	6.6%	3.4%
Return on Equity	-62.5%	82.8%	38.1%	6.5%	18.4%	3.5%	4.5%	3.8%	7.8%	4.1%
ROIC	-62.5%	82.8%	38.1%	6.5%	18.4%	3.5%	4.5%	3.7%	7.6%	4.0%
Shares Out.	50.0	56.4	56.3	55.3	54.6	54.3	55.7	57.6	58.4	64.0
Revenue/Share	0.29	1.86	2.34	2.27	2.11	1.71	1.49	1.91	1.98	2.11
FCF/Share	(0.53)	0.60	0.47	0.00	0.36	(0.12)	0.05	0.18	(0.31)	(0.28)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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