



# Gold Resource Corp. (GORO)

Updated September 8<sup>th</sup>, 2021 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$1.70	<b>5 Year CAGR Estimate:</b>	15.5%	<b>Market Cap:</b>	\$129 M
<b>Fair Value Price:</b>	\$1.35	<b>5 Year Growth Estimate:</b>	19.0%	<b>Ex-Dividend Date:</b>	9/14/2021
<b>% Fair Value:</b>	126%	<b>5 Year Valuation Multiple Estimate:</b>	-4.5%	<b>Dividend Payment Date:</b>	9/30/2021
<b>Dividend Yield:</b>	2.4%	<b>5 Year Price Target</b>	\$3.20	<b>Years Of Dividend Growth:</b>	2
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	D	<b>Last Dividend Increase:</b>	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 \$129 million. On February 19<sup>th</sup>, 2021, Gold Resource spun off its Nevada mining unit into a separately traded stock, Fortitude Gold (FRTT), 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 over \$117 million in dividends since July-2010. As this amount is nearly equal to 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 swings of the prices of gold and silver.

Gold Resource is greatly affected by the pandemic in two different ways. It was forced to shut down its mines for a few months last year due to social distancing measures, but it greatly benefited from the huge stimulus programs that most governments have implemented in an effort to offset the severe global recession caused by the pandemic. This led the price of gold to surge to a new all-time high last year, thus benefiting Gold Resource. The price of gold corrected in the first quarter, but it has rallied again, and it is much higher than its 10-year average.

In late July, Gold Resource reported (7/27/2021) financial results for the second quarter of fiscal 2021. Gold prices remained near all-time high levels while silver prices remained strong. As a result, Gold Resource switched from a loss per share of -\$0.03 in last year's quarter to earnings-per-share of \$0.03. Given the sustained high price of gold, we have raised our earnings-per-share forecast for the full year from \$0.04 to \$0.09. Nevertheless, the stock has plunged -40% in the last three months, primarily due to its extremely rich valuation before the correction.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$1.03	\$0.60	\$0.00	\$0.30	\$0.06	\$0.08	\$0.07	\$0.16	\$0.09	\$0.04	<b>\$0.09</b>	<b>\$0.21</b>
<b>DPS</b>	\$0.48	\$0.68	\$0.48	\$0.12	\$0.12	\$0.03	\$0.02	\$0.02	\$0.03	\$0.04	<b>\$0.04</b>	<b>\$0.06</b>
<b>Shares<sup>1</sup></b>	56.4	56.3	55.3	54.6	54.3	55.7	57.6	58.4	64.0	70.7	<b>76.0</b>	<b>100.0</b>

Now that Gold Resource has spun off its mining unit in Nevada, it will focus exclusively on the mine in Oaxaca, Mexico, which is the flagship mine of the company. Gold Resource recently stated that it will do its best to unlock value and maximize its benefit from its large land position in Mexico.

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 stock price have plunged -96% and -92%, 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 off this year's low level thanks to our expectations for decent production growth in the upcoming years.

<sup>1</sup> In millions.

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## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	23.5	36.7	---	15.9	47.0	49.6	59.7	31.9	43.2	97.0	18.9	15.0
Avg. Yld.	2.0%	3.1%	5.3%	2.5%	4.3%	0.8%	0.5%	0.4%	0.8%	1.0%	2.4%	2.0%

Gold Resource is trading at a price-to-earnings ratio of 18.9. This valuation level is much lower than its 10-year average price-to-earnings ratio of 44.9, which is excessive but has resulted from high growth expectations. As soon as this growth materializes, we expect the stock to trade at an earnings multiple around 15.0. If this were to occur, the stock would incur a -4.5% annualized valuation drag, which would partly offset the high expected growth rate.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

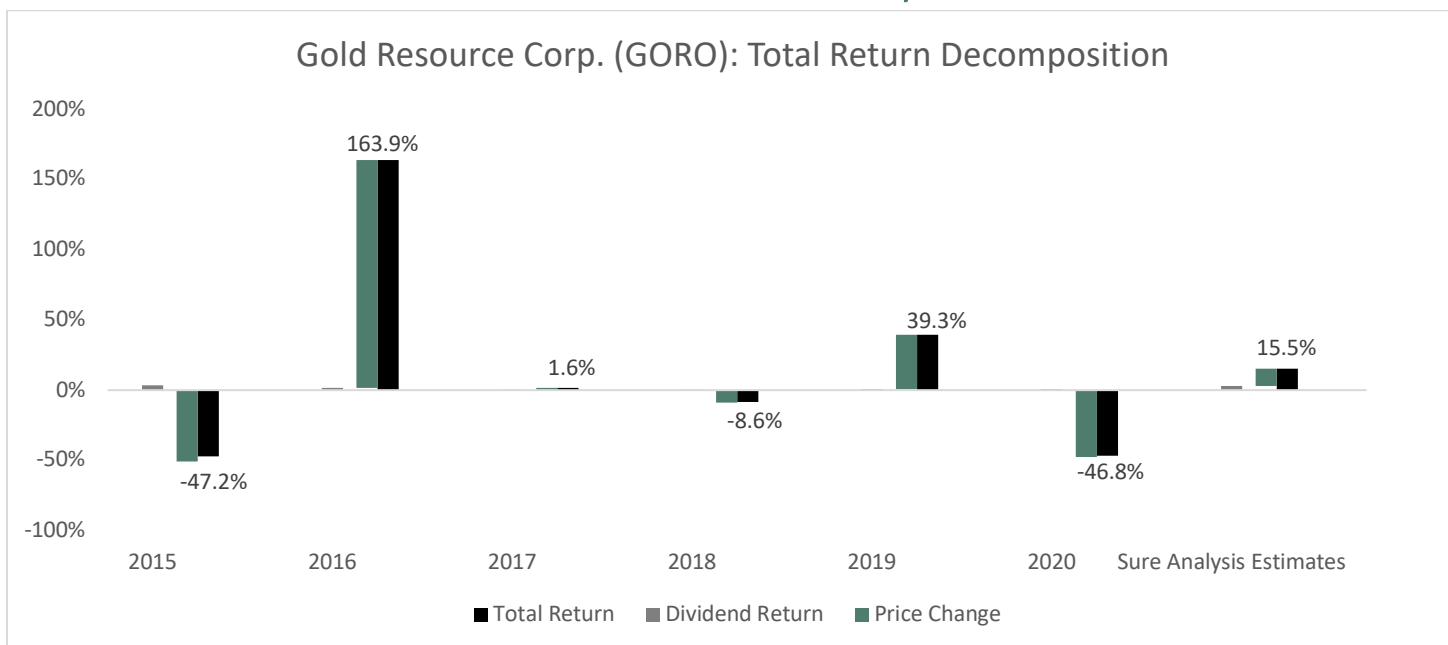
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	47%	113%	---	40%	200%	38%	29%	13%	33%	100%	44%	30%

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. This year, the company has begun to pay quarterly dividends instead of monthly dividends. The -92% reduction of the dividend in the last 9 years is a reminder of the vulnerability of the company to the commodity cycles.

## Final Thoughts & Recommendation

Gold Resource has vastly underperformed its peers, as it has posted poor earnings-per-share, despite the high prices of gold and silver. Due to the reversion of its valuation to more reasonable levels and the recent spin-off of its promising Nevada unit, Gold Resource has plunged -40% in three months, to new 5-year lows. As a result, the stock could offer a 15.5% average annual return over the next five years. However, 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 rate the stock as a cautious buy but only for recognize the inherent risks in the business.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	105	132	126	115	93	83	110	115	120	91
<b>Gross Profit</b>	81	88	58	51	30	22	42	34	29	12
<b>Gross Margin</b>	76.6%	66.6%	46.3%	44.1%	32.7%	27.0%	38.2%	29.2%	23.8%	13.8%
<b>SG&amp;A Exp.</b>	9	14	16	12	10	10	8	9	10	11
<b>D&amp;A Exp.</b>	1	---	---	---	9	13	15	15	20	18
<b>Operating Profit</b>	46	50	10	32	13	8	30	18	15	(0)
<b>Operating Margin</b>	43.4%	37.7%	8.2%	27.4%	14.1%	9.7%	26.8%	15.8%	12.5%	-0.5%
<b>Net Profit</b>	58	34	5	15	3	4	4	9	6	4
<b>Net Margin</b>	55.5%	25.5%	4.2%	13.0%	3.3%	5.3%	3.8%	8.1%	4.8%	4.8%
<b>Free Cash Flow</b>	34	27	0	20	-7	3	10	-18	4	23
<b>Income Tax</b>	-12	13	4	16	7	5	24	7	10	6

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	115	106	92	106	106	118	133	150	193	106
<b>Cash &amp; Equivalents</b>	52	36	15	28	13	14	22	8	10	25
<b>Accounts Receivable</b>	14	6	2	1	0	1	3	2	8	4
<b>Inventories</b>	4	8	7	7	9	9	12	14	14	10
<b>Total Liabilities</b>	28	16	17	18	18	11	21	23	35	15
<b>Accounts Payable</b>	2	3	4	6	12	5	7	12	9	9
<b>Long-Term Debt</b>	---	---	---	---	---	---	2	2	---	---
<b>Shareholder's Equity</b>	87	90	75	88	89	107	112	127	158	91
<b>D/E Ratio</b>	---	---	---	---	---	---	0.02	0.02	0.01	---

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	65.6%	30.5%	5.4%	15.2%	2.9%	3.9%	3.3%	6.6%	3.4%	2.9%
<b>Return on Equity</b>	82.8%	38.1%	6.5%	18.4%	3.5%	4.5%	3.8%	7.8%	4.1%	3.5%
<b>ROIC</b>	82.8%	38.1%	6.5%	18.4%	3.5%	4.5%	3.7%	7.6%	4.1%	3.5%
<b>Shares Out.</b>	56.4	56.3	55.3	54.6	54.3	55.7	57.6	58.4	64.0	70.7
<b>Revenue/Share</b>	1.86	2.34	2.27	2.11	1.71	1.49	1.91	1.98	1.88	1.28
<b>FCF/Share</b>	0.60	0.47	0.00	0.36	(0.12)	0.05	0.18	(0.03)	0.07	0.32

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

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