



Gold Resource Corp. (GORO)

Updated March 10th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$2.70	5 Year CAGR Estimate:	5.3%	Market Cap:	\$196 M
Fair Value Price:	\$0.60	5 Year Growth Estimate:	40.0%	Ex-Dividend Date:	3/10/2021
% Fair Value:	450%	5 Year Valuation Multiple Estimate:	-26.0%	Dividend Payment Date:	3/23/2021
Dividend Yield:	1.5%	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 \$196 million. On February 19th, 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 \$115 million in consecutive monthly dividends since July-2010. As this amount is more than 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 swings of the prices of gold and silver.

Gold Resource is greatly affected by the coronavirus crisis in two different ways. First, most countries have announced huge stimulus programs 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 has corrected -15% off its peak but it is still much higher than its 10-year average. On the other hand, the company was forced to shut down its operations in Mexico for two months due to social distancing measures.

In late February, Gold Resource reported (2/24/2021) financial results for the fourth quarter of fiscal 2020. In the year, the all-time high price of gold and the steep increase in the price of silver were more than offset by the sharp decline in production in Oaxaca due to COVID-19 measures. As a result, earnings-per-share fell from \$0.09 in 2019 to \$0.04 in 2020. Given the record gold prices, Gold Resource greatly disappointed investors and underperformed its peers by a wide margin. As a result, the stock is currently trading near its 5-year lows.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.03	\$0.60	\$0.00	\$0.30	\$0.06	\$0.08	\$0.07	\$0.16	\$0.09	\$0.04	\$0.04	\$0.22
DPS	\$0.48	\$0.68	\$0.48	\$0.12	\$0.12	\$0.03	\$0.02	\$0.02	\$0.03	\$0.04	\$0.04	\$0.06
Shares¹	56.4	56.3	55.3	54.6	54.3	55.7	57.6	58.4	64.0	70.7	72.0	85.0

The mining unit in Nevada is expected to nearly quadruple its output between 2019 and 2021 and maintain flat output from 2021 to 2023. However, now that Gold Resource has spun off this unit, 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 -90%, 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 nearly 10-year low level thanks to our expectations for decent 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	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	67.5	15.0
Avg. Yld.	2.0%	3.1%	5.3%	2.5%	4.3%	0.8%	0.5%	0.4%	0.8%	1.0%	1.5%	2.0%

Due to the nearly 10-year low earnings-per-share expected this year, Gold Resource is currently trading at an extreme price-to-earnings ratio of 67.5. This valuation level is much higher than its 10-year average price-to-earnings ratio of 44.9, 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 were to occur, the stock would incur a -26.0% annualized valuation drag, which would partly offset our artificially high expected growth rate.

Safety, Quality, Competitive Advantage, & Recession Resiliency

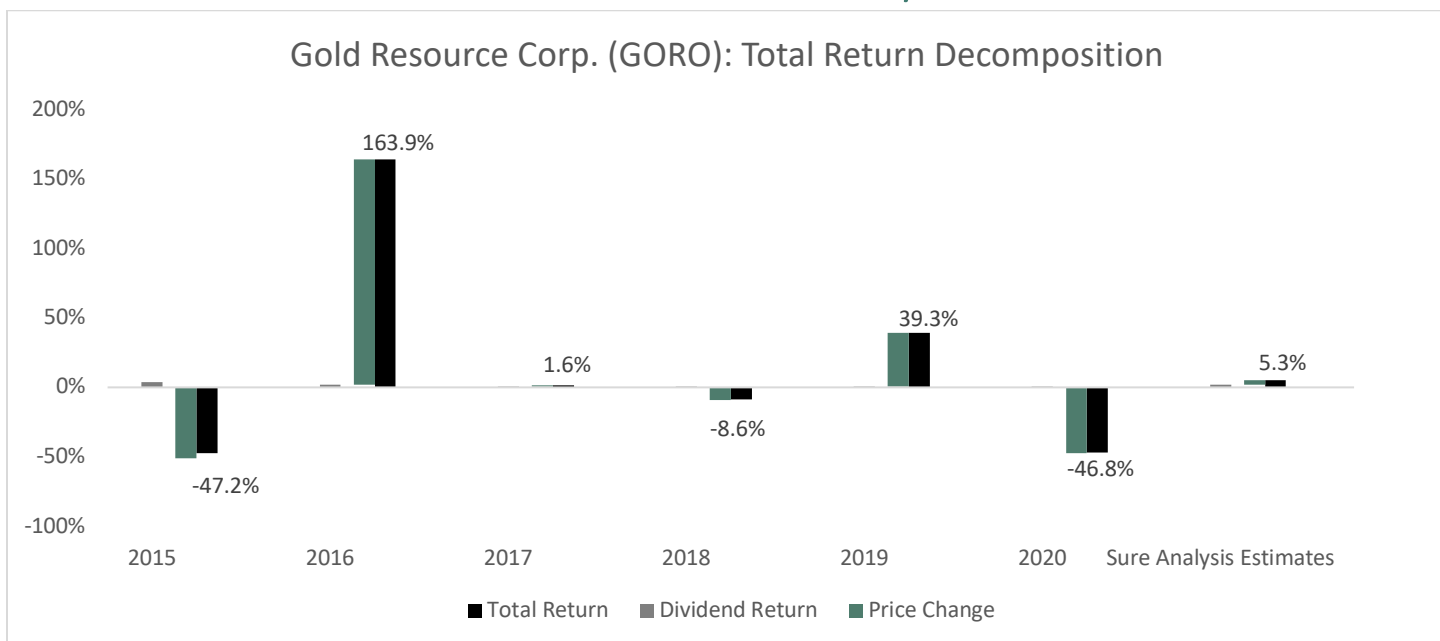
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	47%	113%	---	40%	200%	38%	29%	13%	33%	100%	100%	30%

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 has vastly underperformed its peers, as it has posted nearly 10-year low earnings-per-share, despite the record prices of gold and silver. The stock has plunged to its 5-year lows but we do not view it as attractive, given also the recent spin-off of its promising Nevada unit. The stock could offer a 5.3% average annual return over the next five years, but 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 maintain our sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

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

Profitability & Per Share Metrics

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