This Large-Cap Gold Miner Is Set to Climb If Gold Continues to Appreciate

Description

The price of gold continues to gyrate wildly, with growing geopolitical tensions and violence in the Middle East now driving the price of the precious yellow metal higher. But despite its recent spike to just over $1,390 per ounce, the share prices of gold mining stocks are still down significantly from where they began the year. It's like shooting fish in a barrel when it comes to a finding a depressed golf mining stock these days, but our target here today it Canadian large-cap **IAMGold** (TSX: IMG)(NYSE: IAG). Though the stock has bounced of late, year to date, it's still down by just under 50%.

There are a range of factors that leave IAMGold favorably placed to not only weather any further deterioration in the gold price, but to deliver significant value for investors should gold continue with its return to glory. Several of these factors include a clean balance sheet, and the fact that even in a tough market, it's still generating a solid margin, and steadily growing production.

Balance sheet remains relatively clean

Despite cash and cash equivalents falling 40% year-over-year in the second quarter, IAMGold's liquidity remains strong. Long-term debt has remained steady at $640 million and the company still has available credit facilities totaling $750 million.

IAMGold has a low debt-to-equity ratio of 0.2 and an impressive current ratio — a measure of a company's short-term liquidity — of just over 3. These are certainly superior to many of its peers, including **Barrick Gold**, as the table below illustrates.

Company	**Debt-to-Equity Ratio**	**Current Ratio**
IAMGold	0.2	3
Barrick Gold	1	2

Yamana Gold	0.1	1.5
Goldcorp	0.1	2.5

Source data: Fidelity

In order to maintain profitability in an operating environment with softer precious metals prices, IAMGold cut its exploration budget by a third in the first quarter of 2013. But as its balance sheet illustrates, the company's solid liquidity leaves it well-positioned to increase capital expenditures on exploration and mine development as the price of gold increases.

Reduced costs will boost profitability

Like its peers, IAMGold has embarked on an aggressive cost-cutting program aimed at boosting profitability in a difficult operating environment. IAMGold announced in March 2013 that $100 million had been slashed from its operating budget, with $50 million of that coming from its exploration budget.

By the end of the second quarter, IAMGold announced that 55% of this cost reduction target had been achieved, leaving it positioned to hit the $100 million target by the end of 2013. As a result, IAMGold lowered its total cash cost and all-in sustaining costs guidance.

For the full-year 2013, IAMGold has forecasted an expected total cash cost of $790 to $840 and an all-in sustaining cost of $1,150 to $1,250 per ounce of gold produced. As such, this reduction in costs, coupled with an appreciating gold price, should boost IAMGold's full-year earnings.

It is not mired with costly mine development delays

Another plus for investors is that IAMGold, unlike Barrick Gold or Goldcorp, has not found itself mired in costly development delays on its projects. Both Barrick and Goldcorp have experienced increasing opposition and development delays due to environmental concerns on key projects in Chile. Barrick wrote down $5 billion from the value its Pascua-Lama project, and the future of Goldcorp's $3.9 billion El Morro project is still uncertain with the environmental permit still suspended.

Foolish final thoughts

Softening gold prices have certainly swung the spotlight back onto gold mining stocks and in particular their production costs and profitability. But IAMGold has a solid balance sheet, ample liquidity, and a cost-reduction program that make it well-positioned to boost its profitability and weather any further deterioration in the gold price. These attributes also give IAM Gold the potential to generate returns that could outpace those generated by gold, if the price of gold continues to appreciate.

Another golden opportunity

Though gold may be poised for a rebound, there is another resource that potentially offers a more significant opportunity. Instead of gold, your portfolio could be best served by uranium – the key ingredient for nuclear power. Not only is uranium in demand in places like China, but its price isn't quite as headline driven, which could make it a more valuable commodity to secure your portfolio.

If you're curious to learn more about uranium's power, The Motley Fool has prepared a Special **FREE** Report that will clue you into the two best uranium companies in Canada. It's called "Fuel Your Portfolio With This Energetic Commodity," and you can receive a copy at no charge by simply **clicking here now!**

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1. Investing

TICKERS GLOBAL

1. NYSE:IAG (IAMGOLD Corporation)
2. TSX:IMG (IAMGOLD Corporation)

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