



Earnings Preview: Will Yamana Gold Deliver for Investors Next Week?

Description

As we roll into the thick of earnings season, it's a good idea to write down an explicit definition of what a successful earnings reports looks like *before* the numbers are released. That way you can assess the results less emotionally.

Yamana Gold (TSX:YRI, NYSE:AUY) has been one of the few bright spots in the mining industry. And in spite of the massive drop in gold prices, Yamana earnings should remain positive even as other less healthy gold miners expect sizable losses. This gives the firm a good chance to survive, even thrive, in the current low commodity price environment.

Yamana is scheduled to post its quarterly earnings and year-end results next Tuesday. Here's what investors should be looking for.

Stats on Yamana Gold

Analyst EPS Estimate	\$0.07
Change From Year-Ago EPS	(73%)
Revenue Estimate	\$495 million
Change From Year-Ago Revenue	(21.4%)
Earnings Beats in Past Four Quarters	1

Source: Yahoo! Finance

Will Yamana deliver for shareholders this quarter?

There should be no surprises here. Thanks to falling gold prices, Bay Street has been generally cutting their earning projects for Yamana. Over the past three months, analysts have cut their consensus EPS estimate for the upcoming quarter by a whopping 73% to \$0.07 per share. And the street has reduced its full-year 2014 outlook by more than half to \$0.37.

And following the release of the company's preliminary 2013 results this week, it looks like the upcoming quarter could be even worse than analysts expects. On Monday Yamana reported full-year

production that fell short of its forecasts, blaming the shortfall on problems at new operations that it said had been resolved by the end of 2013.

The gold miner also anticipates that non-cash write-downs may be required for two of its smaller mine holdings and some minor properties to reflect current estimates of their value. The questions now: how big will these write-downs be?

Digging past the headline production numbers, investors will also be watching to see how much the company can cut costs.

Early last year Yamana targeted a cost reduction of US\$150 per ounce this year and has lowered production expectations at its Ernesto/Pau-a-Pique and Jacobina mines in order to trim expenses. It may also slow down its development projects, and said it is reevaluating production targets for future years.

This week investors should be watching to see how cost-saving initiatives are proceeding in Yamaha's earnings report. Excluding the sale of by-product metals, Yamana expects its 2014 all-sustaining cash cost will be US\$925 per gold-equivalent ounce, compared with US\$947 in 2013. Investors will be looking for additional colour in the call. Even if gold prices remain low, the stock could recover quickly if the company can deliver on its targeted cost savings.

However, the downside of slashing costs is often lower production, and Yamana Gold is going through precisely that situation. Investors will be watching to see if the company's production target of 1.5 million gold equivalent ounces by 2015 is still achievable.

Foolish bottom line

Gold mining shares are generally underowned going into 2014. As capital starts to flow back into the sector, investors will favour gold companies that boast conservative balance sheets, production growth, and shrinking costs. Yamana Gold fits the bill. Any good news next week could provide a huge upside catalyst for the stock.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. TSX:YRI (Yamana Gold)

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Author

rbailieu

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