Will IAMGOLD's Lack Luster Performance Continue In 2014?

Description

As gold continues to rally, hitting a four-month high of U.S. $1,339 per ounce, interest among analysts and investors in beaten-down gold miners continues to grow. This has seen a number of stocks pop nicely over recent weeks and analysts issue a number of upgrades for gold miners.

But not every miner is created equal and small-cap gold miner **IAMGOLD** (TSX:IMG)(NYSE:IAG) — once a hot stock — has fallen into disfavor after reporting a dismal fourth quarter and full year 2013. This poor performance saw a number of analyst downgrades and raises the question as to whether this is a gold miner to avoid.

Significant exposure to high-risk jurisdictions is unattractive
The first of many issues for investors is IAMGOLD's significant exposure to a number of high risk and unstable jurisdictions. This includes its joint partnership with AngloGold Ashanti in Mail, which accounted for 10% of its total 2013 gold production, along with its 100% operating interest in the Essakane gold mine in Burkina Faso and the Rosebel mine in Suriname. The latter two mines accounted for 30% and 40% respectively of IAMGold's total 2013 production.

That means 80% of the company's total gold production being obtained from high risk jurisdictions. This risk is highlighted by Transparency International in their Corruption Perceptions Index 2013, with Mali ranked 127th, Suriname 94th and Burkina Faso 83rd, where the higher the ranking the higher the degree of public corruption.

Full-year 2013 results were disastrous for investors
Primarily due to weaker gold prices throughout 2013, revenue plunged by 21% for the full year to U.S. $1.1 billion. But even more uninspiring, IAMGOLD's net earnings plunged a whopping threefold in comparison to 2012 to a net loss of U.S. $861 million.

The majority of this significant net loss can be attributed to lower revenues, higher operating costs and impairment charges totaling U.S. $773 million. Even more worrying is that 2013 cash flow – a key measure of a gold miner's ability to fund exploration and other capital expenditures – plunged 41% in comparison to 2012.

IAMGOLD also reported all in sustaining costs per ounce in 2013 jumped 16% in comparison to 2012 to U.S. $1,232 per ounce, while gold reserves fell 11% to 10.1 million ounces.

Such high all in sustaining costs per ounce — the most effective measure of a miner's profitability — leaves IAMGOLD with a particularly thin margin per ounce sold. They are also significantly higher than IAMGOLD's peers in 2013, with **New Gold** (TSX:NGD)(NYSE:NGD) reporting U.S. $899 per ounce and **Yamana Gold** (TSX:YRI)(NYSE:AUY) U.S. $925 per ounce.

In a further blow for investors IAMGOLD suspended its dividend in December 2013 in order to retain cash, cut costs and preserve its balance sheet. It also didn't provide any clear guidance as to when the dividend would be reinstated, making the company even more unattractive for investors.

2014 outlook is dismal
IAMGOLD's woes are set to continue throughout 2014, with the company forecasting 2014 gold production will remain flat at between 835,000 to 900,000 ounces. This is in stark contrast to Yamana, which forecast a 17% increase in gold production in 2014, positioning it to take full advantage of the gold rally.

Even more disconcerting is that IAMGOLD's all in sustaining costs are estimated to remain high in 2014, at between U.S. $1,080 to $1,185 per ounce. That leave it with a thin margin of between U.S. $154 to U.S. $259 per ounce of gold sold. All of which does not bode well for IAMGOLD to grow revenue, cash flow and ultimately its bottom line.

Furthermore, IAMGOLD's forecast all in sustaining costs per ounce are significantly higher than New Gold's estimate of U.S. $815 to U.S. $835 per ounce and Yamana's U.S. $925 per ounce. That makes IAMGOLD a far less profitable operation than either of those peers and makes them far more attractive propositions for investors chasing the gold rally.

A further concern is a number of analysts and investment banks have taken a rather bearish outlook for gold, expecting it to average around $1,200 per ounce in 2014. If the current rally were to reverse and gold fell to this level IAMGOLD's margin per ounce would fall to an almost unsustainable level, more than likely causing it to incur another net loss for 2014.

Foolish bottom line
Clearly IAMGOLD is struggling to perform in the current operating environment. Not only is the majority of its gold production obtained from unstable high risk jurisdictions, but flat production and high operational costs will prevent it from returning to profitability, particularly if the current gold rally reverses. I believe this is a stock to avoid for investors seeking to take advantage of firmer gold prices.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. NYSE:IAG (IAMGOLD Corporation)
3. TSX:IMG (IAMGOLD Corporation)
4. TSX:NGD (New Gold Inc.)
5. TSX:YRI (Yamana Gold)

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