3 Reasons to Bet Like George Soros on Agnico Eagle Mines Ltd

Description

Billionaire investor George Soros has been making some big bets on precious metals, and in particular gold, of late. He has already ploughed U.S.$120 million into **Barrick Gold Corp.** (TSX: ABX)(NYSE: ABX) and has made further big bets on **Yamana Gold Inc.** (TSX: YRI)(NYSE: AUY) and **Goldcorp Inc.** (TSX: G)(NYSE: GG).

However, it is **Agnico Eagle Mines Ltd** (TSX: AEM)(NYSE: AEM) that is among his biggest bets, as he has invested almost $14 million. I believe this is one of his best bets in the industry, as the company offers considerable upside to investors should the price of gold rally.

Let's take a closer look at three reasons why I believe Agnico Eagle is a compelling investment opportunity, despite missing the consensus forecast for earnings per share for the second quarter by 7%.

1. Strong gold production growth

Gold production for the second quarter of 2014 dropped 11% compared to the previous quarter but shot up a massive 46% compared to the equivalent quarter in 2013. This solid year-over-year production growth is set to continue through the remainder of 2014, with the company focused on driving higher throughput at its operational mines.

This solid growth in gold production has also seen the company reissue its 2014 full-year guidance, with gold production now estimated to be 1.35 million to 1.37 million ounces, a 14% increase over the company's original guidance.

Taken in conjunction with firmer precious metal prices, this bodes well for Agnico to improve earnings over the remainder of 2014

2. Considerable upside from a joint acquisition

Agnico Eagle's joint acquisition of the Malartic gold mine with Yamana through the acquisition of Osisko Mining Corp earlier this year offers considerable potential upside for both Agnico and Yamana.

The perceived value of the Malartic mine, which is Canada's largest gold mine, is highlighted by Goldcorp's earlier tilt at acquiring Osisko, which was rebuffed.

The Malartic mine is an important acquisition because it has no construction capital, permitting, or start-up risks, as it was already an operational mine and has the potential to produce up to 600,000 ounces of gold annually over the next 14 years.

It's also one of the lowest-cost gold mines operating in Canada, with cash costs of only $672 per ounce of gold produced. This is significantly lower than the cash cost of $941 per ounce of gold produced by Canada's second-largest gold mine, the Detour Mine owned by **Detour Gold Corporation** (TSX: DGC). It is also significantly lower than the cash costs for all of Barrick's North American gold mines, with the exception of the Turquoise Ridge mine located in the U.S.

Agnico is working hard with Yamana to explore the synergies available from the acquisition of the Malartic mine and determine the best way to optimize the mine's production and operating costs.

All of these things bode well for the mine to provide both gold miners a significant boost to their production at a relatively low cost. These factors, coupled with higher gold prices, bode well for Agnico to significantly boost its profitability and bottom line, allowing it to further unlock value and reward shareholders for their patience in what has been a difficult operating environment.

3. A low cost structure resulting in solid margins

Another key aspect of Agnico's performance is that it continues to operate with a low cost structure. I have estimated second quarter all-in sustaining costs to be around $880 per ounce of gold produced. This estimate is higher than the $799 per ounce reported for the first quarter of 2014 but still comparable to many of its peers, including senior gold miners like Barrick, Goldcorp, and **Newmont Mining Corp** (NYSE: NEM), which, due to their size, are capable of generating greater cost-saving synergies.

For the same period, Barrick reported lower all-in sustaining costs of $865 per ounce, while Goldcorp reported an even lower $852 per ounce. Agnico's partner in the Malartic mine, Yamana, reported $864 per ounce. In contrast, Newmont's costs were significantly higher at $1,063 per ounce despite being a much larger miner.

Agnico has also forecast full year 2014 all-in sustaining costs of $990 per ounce, which is comparable to many of its peers. Barrick has issued a guidance of $980 per ounce, while Goldcorp's is $1,000, Yamana's is $925, and Newmont's is $1,175 per ounce.

Furthermore, when the Malartic mine is integrated into Agnico's business and ramped up to full production capacity, I would expect these costs to fall given its low-cost nature.

All of these factors bode well for Agnico to generate a solid margin for each ounce of gold produced. As a result, I expect to see the company deliver a solid financial performance over the remainder of 2014. Its growing production will also position the company well to take full advantage of any firming of the gold price, further boosting its bottom line.

CATEGORY

1. Investing

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1. NYSE:NEM (Newmont Mining Corporation)
2. TSX:ABX (Barrick Mining)
3. TSX:AEM (Agnico Eagle Mines Limited)
4. TSX:YRI (Yamana Gold)

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