1 Simple Reason Why You Should Buy Agnico Eagle Mines Ltd

Description

If you are looking at recent performance, **Agnico Eagle Mines Ltd** (TSX: AEM)(NYSE: AEM) may not seem like a good investment on the surface. The company's stock has dropped as much as 12% in the last 30 days following the release of its second quarter earnings report, which missed analysts' estimates on revenue and earnings per share.

However, for investors looking for a stock with long-term value, the details in the earnings report show how the recent price drop could have created an opportunity to buy a great miner at a lower cost.

Year-to-date performance still strong

Even with the latest stock correction, Agnico Eagle has gained approximately 28% this year, and this rally is well deserved. Sure, the latest results were a miss, but the miss is not enough evidence to write the company off. If Agnico Eagle reported declining revenue and earnings multiple quarters in a row, *then* it might be worth questioning the company's management and strategy.

In examining the past few quarterly reports, it is apparent that Agnico Eagle, like all other gold miners, is facing challenges due to the decline in metal prices. The company is working hard to cut costs to survive, and hopefully thrive, in the dynamics of the current market.

Rising production, decreasing costs create long-term value

The main reason why Agnico Eagle is still a great investment is that the company is boosting production while at the same time reducing costs.

Positives in the second-quarter earnings report included a 45% year-over-year increase in gold production and a decrease in cash costs from $785 per ounce to $626 per ounce. These two factors individually can be a positive influence on a stock, but together they are quite powerful. Many miners could boost production, but if they are not making money on the metal that they are mining, such a boost would be a moot point. In fact, many miners see their operating costs go up as they produce more, as they access resources that are more expensive to get to. However, when production goes up and costs go down, it's a recipe for long-term success for a miner. This is exactly what is occurring with

Agnico Eagle's operations.

Agnico Eagle announced early this year that it is targeting an increase in gold production to 1.275 million ounces by 2016, but the latest results suggest that the company will surpass this goal by the end of 2014. Agnico Eagle just raised its full-year production guidance to fall in the range of 1.35 million-1.37 million ounces. The company sees the potential for even more resource increases not only because of its recent value-creating joint acquisition of the Malartic mine, but also because of the potential for resource expansion at its Meliadine mine in Canada and the Kittila mine in Finland.

For the full year, Agnico Eagle is forecasting that cash costs will fall in the range of $650-$675 per ounce and that all-in sustaining costs will be $990 per ounce, leaving the miner room to profit even at the current relatively low price of gold.

These lowered costs and production improvements are not completely new developments for Agnico Eagle, but as time goes by, production continues to grow and costs are stable or trending lower. This is exactly what will make it a high-value long-term investment, and the price dip following the latest earnings miss may have opened up the perfect opportunity to buy a long-term stock at a lower price.

CATEGORY

1. Investing

TICKERS GLOBAL

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