



3 Reasons Why I Believe Yamana Gold Inc. Shares Are Set to Pop

Description

It has been a difficult year for precious metals miners with gold and silver prices gyrating wildly on the back of mixed economic data and geopolitical crises.

Investors are also receiving mixed signals from Wall Street and institutional investors, with some making big bets on a recovery in gold and silver prices by investing in beaten-down gold miners.

This has seen two big names in the business, George Soros and Ray Dalio, take some big positions in industry names, including **Yamana Gold Inc.** ([TSX: YRI](#))([NYSE: AUJ](#)).

But Soros did recently dump the majority of his holding in the world's largest gold miner, **Barrick Gold Corp.** ([TSX: ABX](#))(NYSE: ABX), totaling \$112 million. Yet he retained his significant investment in Yamana totaling \$20.9 million, which I believe will pay off handsomely for Soros.

Let's take a closer look at why Yamana shares are ready to pop.

1. The outlook for gold prices continues to improve

Even with gold down by 8% from its high for the year-to-date of \$1,379, there are emerging signs another rally is imminent. There is a range of macro-economic and geopolitical factors that continue to support a further gold rally. Key among them are fears of deflation in the Eurozone, stronger than expected U.S. economic growth, growing market volatility and escalating conflict in the Middle East and Europe.

Furthermore, the low interest rate environment and the increased printing of fiat currencies continues to erode the value of those currencies, which makes safe-haven investments appear more attractive to investors.

All of which will fuel further investor demand for gold with it retaining its traditional role as a store of value and hedge against inflation.

2. Production continues to grow

An important aspect of Yamana's operations has been its ability to significantly grow gold production, while maintaining control of costs. For the second quarter 2014, gold production spiked a massive 20% compared to the previous quarter and 12% against the equivalent quarter in the previous year. This has allowed Yamana to take full advantage of the rally in gold prices, which occurred in March and July of this year.

Furthermore, by significantly boosting production while controlling costs Yamana has been able to boost revenues and its bottom line. This saw it beat the Q2 consensus analyst forecast for earnings per share by an impressive 67%.

Not only is a range of mine development projects on schedule or completion, but also the acquisition of one of Canada's lowest cost and largest gold mines, the Canadian Malartic gold mine in partnership with **Agnico Eagle Mines Ltd** ([TSX: AEM](#))([NYSE: AEM](#)) bodes well for a further boost in production.

The mine produces some exceptionally high-grade ores and both partners are in the process of appraising the mine's operations in order to implement a development plan that will boost production while pushing down costs. With the acquisition of the mine now complete, I expect to see it significantly boost Yamana's gold production over the remainder of 2014, with it expected to produce 510,00 ounces of gold for the full year. This would add roughly an additional 118,000 ounces to Yamana's gold production between June 30 and December 31, 2014.

This should see Yamana's production continue to grow while costs over time continue to fall, boding well for further revenue growth and its bottom line.

3. Yamana remains a low-cost producer

One of Yamana's key strengths is that it remains one of the lowest-cost producers in its industry with all-in-sustaining costs for the second quarter of \$844 per ounce on a by product basis. These are lower than Agnico Eagle's AISC of \$990 per ounce for the same period as well as Barrick's \$865 and **Goldcorp Inc's** (TSX: G)(NYSE: GG) \$852 per ounce.

This gives Yamana a distinct advantage over many of its peers, allowing it to not only remain profitable at gold prices where many of its peers can't, but also generate solid margins even from a small spike in the price of gold.

For all of these reasons it is easy to understand why Soros has taken a liking to Yamana with it being one of the best leveraged plays on the price of gold.

I believe these factors bode well for Yamana to continue unlocking value for investors and will drive its share price higher making now the time for investors to take a punt on another gold rally by investing in Yamana.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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