



Why Yamana Gold Inc. Is a Good Long-Term Buy Despite its Short-Term Hurdles

Description

I've always been bullish on gold and silver – both commodities and companies – in spite of its performance not quite going the way I've hoped.

Gold is currently trading near its four-month low and is below the key \$1,200-mark. The latest data showed only \$1.3 billion was pulled from U.S. precious metal exchange-traded funds in October. That's also the biggest decline this year. So it's only natural for investors to feel stumped when looking at the sector and wondering which stocks to buy.

There's one company that I'd like to focus on that currently has a lot of headwinds but I believe it will eventually overcome them in the long term. That company is **Yamana Gold Inc.** ([TSX: YRI](#))([NYSE: AUU](#)).

Yamana, admittedly, has been having a pretty rough time over the past year. Since September 20, 2013, the company's shares have plunged 59% and have underperformed the gold index (GDX) by 25%. It's bad enough that the slump in gold prices is beating down the stock, but to add to that, the company's earnings were more than weak.

Yamana's bottom line took a beating mainly because of impairment charges for its Brazilian mines. The company reported a net loss of \$1.02 billion. There were also execution issues related to three development projects in Brazil that that's put major pressure on the company's earnings and cash flow. Yamana is said to have put two of the projects on care and maintenance this quarter and also reported lower than expected production from the third Brazilian project.

That's not all. The company's balance sheet has also been declining. Its net debt more than doubled over last 12 months, going from \$932 million at the end of the third quarter of last year to a massive \$2 billion a year later, at the end of the third quarter of 2014. This is primarily due to the joint acquisition of Osisko Mining this year.

Then, there is also the issue of poor operational execution that is causing the company to underperform. Yamana has missed and cut its operational guidance several times over the past two years.

So yes, Yamana Gold's performance is beyond bad. Investor confidence seems to be battered and it will likely take Yamana a while to build that sentiment back up. But, if you look at the bigger picture, the sun will eventually shine on the company. Things will turn around and share price will increase. And that's when you'll be patting your back for the fact that you were able to look past the momentary headwinds and invest in the bigger picture. That's what distinguishes a great investor from an ordinary one.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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