3 Reasons Why Now Is the Time to Invest in Yamana Gold Inc.

Description

It's been a tough time for investors in gold miners, with the sector as a whole beaten down on the back of softer gold prices. Over the last year, the lustrous yellow metal has plunged 8%, primarily because of a stronger U.S. dollar and resurgent U.S. economy. This has dragged down the stock prices of many gold miners, with the **NYSE ARCA Gold Bugs Index** — an equal dollar-weighted index of the 18 largest gold miners listed on the NYSE — down 26% for the same period.

But there a range of leading indicators that gold is set to rally, including growing global economic and geopolitical uncertainty, increased demand, and the failure of QE. The share prices of those gold miners with quality assets, low-cost operations, and solid balance sheets will rebound.

While some analysts recently downgraded their outlook for **Yamana Gold Inc.** (TSX: YRI)(NYSE: AUY), with the company beset by a range of operating problems, I believe it offers investors one of the best opportunities to cash in on that rally.

Let me explain why.

First, Yamana remains a low cost gold producer with third quarter 2014 all-in sustaining costs, or ASICs, of $807 per ounce, which is lower than the majority of its peers. For the same period **Goldcorp Inc.** (TSX: G)(NYSE: GG) reported AISCs of $1,066 per ounce whereas **Barrick Gold Corp.'s** (TSX: ABX)(NYSE: ABX) were $834 per ounce and **New Gold Inc.'s** (TSX: NGD)(NYSE: NGD) were $848 per ounce.

This allows Yamana to generate a healthy margin even at the current depressed gold prices and essentially means even a slight increase in the price of gold will significantly boost its bottom line.

Second, Yamana continues to grow gold production, with third quarter 2014 production up a healthy 27% year-over-year.

This not only allows Yamana to compensate for lower gold prices through increased production, but leaves it well positioned to take full advantage of any rebound in the price of gold.

Yamana acquired a 50% share in the Canadian Malartic gold mine ealier this year, with the remaining 50% acquired by **Agnico Eagle Mines Ltd.** (TSX: AEM)(NYSE: AEM). This acquisition is a potential game changer for Yamana. It has significantly boosted its gold production in the lower risk jurisdiction of Canada, while reducing its dependence on gold produced in higher risk jurisdictions in South America.

The mine also has some of the lowest operating costs and highest ore grades of any gold mine in Canada, with Yamana and Agnico jointly exploring options to improve efficiencies at the mine. As a result Yamana and Agnico are focused on completing a range of cost-cutting and operational improvements at the mine that will ramp up production and see both cash costs and ASICs fall.

This will give Yamana access to high quality ore grades and low production costs as the initiatives are completed, which will have a significant positive impact on its bottom-line.

Finally, Yamana retains a solid balance sheet with a relatively low degree of leverage.

At the end of the third quarter 2014, Yamana had net debt of US$1.8 billion and US$169 million in cash on hand and a low debt-to-equity ratio of 0.3. The strength of its balance sheet is also evident with it having an investment grade credit rating and a positive outlook from two primary credit agencies.

All of these attributes make Yamana a must-have stock for any investors portfolio with the company set to bounce back strongly over the long-term. Yamana's low cost operating structure and the potential held by the Canadian Malartic mine coupled with a rebound in the price of gold will significantly boost its earnings and bottom line. This should see a notable appreciation in its share price.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. NYSE:B (Barrick Mining)
3. TSX:ABX (Barrick Mining)
4. TSX:NGD (New Gold Inc.)
5. TSX:YRI (Yamana Gold)

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