Could Yamana Gold Inc. Hit $15 in 2015?

Description

Yamana Gold Inc. (TSX: YRI) (NYSE: AUY) has fallen on hard times over the past three years. Gold prices have plummeted and the company has struggled with operational challenges at some of its mines.

Investors could be forgiven for wanting to throw in the towel and take a tax loss to apply against gains in stronger parts of their portfolios, but that might not be the best move right now.

With gold prices indicating they might have hit a bottom, Yamana is finding some support after touching a low of $4.00 last month. In fact, the stock is up almost 25%.

Let's take a look at Yamana to see if investors should buy, sell, or hold right now.

Production growth and lower costs

Despite challenges at some of its mines, Yamana is growing production at a healthy clip. In its Q3 2014 earnings statement, Yamana reported record production of 391,000 gold equivalent ounces (GEO). The result was a 27% gain over the same period in 2013, driven by strength at several of the company's properties.

The Gualcamayo mine in Argentina enjoyed a 56% jump in production compared to Q3 2013. Cash costs for the quarter were $867 per ounce, a 6% improvement over the previous year. The mine has estimated reserves of more than 3 million ounces of gold.

The Minera Florida mine in Chile had a year-over-year quarterly production gain of 11%. Cash costs dropped by 22% to $593 per GEO.

Yamana's Pilar mine in Brazil went into commercial operation at the start of October 2014. The property contains 1.4 million ounces of proven and probable reserves with an expected production life of 12 years.

The Canadian Malartic mine in Quebec is a 50% joint venture with **Agnico Eagle Mines Ltd.** The property has 8.9 million ounces of proven and probable gold reserves. The mine produced about 130,000 ounces of gold in the third quarter at a cash cost of $735 per ounce.

Balance sheet trouble

At the end of September 2014, Yamana had cash and cash equivalents of $169.2 million compared to $220 million at the start of the year. The company also finished Q3 2014 with $2 billion in long-term debt, compared to $1.2 billion at the end of 2013.

Should you buy?

Yamana has burned through a significant amount of cash this year and added a lot of debt. If gold prices continue to strengthen through 2015, the company should generate enough free cash flow to improve the balance sheet. Otherwise, things could get ugly.

Yamana's market cap is only about $4.3 billion. An argument could be made that the sum of the parts is greater than the whole right now and that could make Yamana a takeout target if the outlook for gold starts to improve. With that in mind, Yamana might be worth holding if you already own it.

The stock currently trades at about $5 per share. A move toward $10 would require a big shift in gold prices. For the price to hit $15, there would have to be a takeover battle for the company. At the moment, that looks unlikely.

Yamana is still a risky bet and you might want to wait for a stronger sign that gold has bottomed before you pile in. If you are looking for safer options to boost your portfolio, check out the following free report on some top picks for 2015.

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