



Why Is Yamana Gold Inc. Plunging?

Description

As of this writing, shares of **Yamana Gold Inc.** ([TSX:YRI](#))([NYSE:AUY](#)) are down by a whopping 8.8% today, even though gold prices are up slightly. It's the latest blow to Yamana's shareholders, who've watched the stock fall by over 40% in the past 12 months.

So why are Yamana's shares down so much? And is now a good time to jump in?

Issuing more stock

Normally, when a company's share price declines, it allows the company to repurchase its own shares at a discount. For example, that's what **Berkshire Hathaway** did in late 2012.

But Yamana is doing the exact opposite; it is actually issuing more equity. More specifically, it is raising at least \$260 million by selling 49.2 million common shares. The money will be used to pay down debt, which currently stands at around US\$2 billion.

This certainly sends a bad signal to investors. Worse still, Yamana has sold these shares to a group of underwriters, who will then try to resell these shares to the general public. The Street is clearly worried that this increase in supply will not be good for the stock price.

So should you buy some of these shares?

At first glance, Yamana appears incredibly cheap. The stock is down by 65% over the past five years, and is now valued at about US\$4,000 for every ounce of gold production, well below companies like Goldcorp. If gold recovers, then Yamana's stock price could skyrocket. But this doesn't mean you should buy the shares.

Yamana is a company with a lot of problems. Down in Brazil, the company has been trying to sell some of its mines, and recently formed a subsidiary to make that easier. But these mines are difficult to get rid of, mainly because they are near the end of their useful lives. They have also run into various operational difficulties, leading to some big write-downs.

Other reasons to stay away

There are a couple other big reasons why you should stay away from Yamana.

One is that gold prices could easily plunge further. Low oil prices are benefiting the American economy, as well as the American dollar. Both of these trends could put downward pressure on the gold price. This would be exacerbated if interest rates were to rise.

Secondly, Yamana's leadership, or lack thereof, leaves much to be desired. Just look at what CEO Peter Marrone has been paid over the past three years: \$32 million. This is more than Goldcorp's CEO, even though the latter company is much larger and more successful.

So even though Yamana appears cheap, you should probably avoid this company for a long time.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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