



George Soros Sold His Stake in Yamana Gold Inc.: Should You Do the Same?

Description

During the third quarter 2014, legendary investor George Soros dumped his complete holding of 2.2 million shares in gold miner **Yamana Gold Inc.** ([TSX:YRI](#))([NYSE:AUY](#)). While this gave him proceeds totalling US\$17.3 million, he still took the hit for a 17% loss on the investment. Since Soros exited Yamana, its share price has plunged a massive 44%, leaving investors wondering what to do next.

Why did the share price collapse?

The key reason for the collapse of Yamana's share price is that in early November 2014, gold plunged to its lowest level in four-and-a-half years as it came under pressure from a resurgent U.S. dollar.

But this wasn't the only trigger for the sell-off in Yamana's shares.

The company has been battling a string of issues at its existing operations that resulted in impairment charges totalling US\$1 billion for the third quarter 2014, leaving it with an adjusted net loss of US\$12.5 million for that quarter. However, the internal issues faced by Yamana don't end there. It is still battling a court ruling in Argentina that could end up in a potential settlement of US\$244 million and the need to strengthen its balance sheet.

What does this mean?

Yamana's ongoing internal issues have raised some red flags among analysts and investors, but I believe the company represents a solid opportunity for investors seeking exposure to the rally in gold.

It has one of the lowest cost structures in its industry, with third quarter all-in-sustaining-costs (AISCs) of US\$807 per ounce, well below its 2014 full-year guidance of US\$825 to US\$875 per ounce. These AISCs are also among the lowest in its industry and are far lower than those of its partner in the Canadian Malartic Mine, **Agnico Eagle Mines Ltd.**, which for the same period reported AISCs of US\$1,059 per ounce.

Such low AISCs allow Yamana to generate a solid margin for each ounce of gold produced, particularly with gold now at US\$1,295 per ounce, while giving it the ability to remain profitable at gold prices that

other miners can't.

Yamana's gold production also continues to grow strongly, with it reporting record third-quarter production of 391,277 ounces of gold or a 27% increase compared to the equivalent period in 2013. Its production should also continue to grow quite strongly, with Yamana focused on increasing gold production from existing core assets, along with the Cerro Moro project in Argentina set to start gold production at the end of 2016.

The company also has a diversified, high quality, long-life asset base with reserves of 16.3 million ounces of gold, and is well positioned to take advantage of the rebound in gold and over time significantly boost its bottom line.

Now what?

Despite the range of internal problems that Yamana has had to grapple with over the last year, I believe it represents a compelling contrarian investment opportunity for investors seeking exposure to the rebound in gold. Yamana, like other gold miners, provides investors with leveraged exposure to gold, but it is also attractively priced compared to many of its peers. Along with its low AISCs and growing production, it is hard not to see Yamana's share price rebounding strongly as earnings continue to grow as the price of gold rallies.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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