Yamana Gold Inc. Is Downgraded: Is This a Signal to Sell?

Description

One-time darling of gold investors, **Yamana Gold Inc.** (TSX:YRI)(NYSE:AUY), is continuing to lose its shine as gold prices slide lower under pressure from a stronger U.S. dollar. After disappointing full-year 2014 results, BMO Capital Markets downgraded its outlook for Yamana from “outperform” to “market perform”.

Are these signals to sell Yamana?

So what?

For the full-year 2014, Yamana disappointed analysts by reporting adjusted earnings-per-share (EPS) of US$0.05, well below the consensus analyst estimate. This disappointing result came on the back of non-cash charges relating to newly enacted changes to Chile’s tax system and the impairment of a range of mineral assets.

Nonetheless, Yamana reported significant growth in production, which for the full year 2014 shot up an impressive 17% compared to 2013.

More impressively, costs for the year fell with all-in-sustaining-costs (AISCs) dropping by 5% compared to 2013 to US$899 an ounce. These low AISCs make Yamana one of the lowest cost operators in its industry, allowing it to generate a solid margin per ounce of gold produced. As a point of comparison, senior gold miner **Goldcorp Inc.** last reported far higher AISCs of US$1,066 per ounce.

Such low AISCs allow Yamana to generate a healthy margin per ounce of gold produced and remain profitable should gold prices fall further.

Furthermore, I expect Yamana’s costs to fall further because of significantly lower oil prices, with diesel and other petroleum products being key inputs in the mining process.

Clearly, Yamana is a quality gold miner and as a levered play on gold prices, it offers a solid opportunity to bet on gold rallying further. This then leads us to the key question that will influence whether investors should invest in Yamana; what is the outlook for gold?

Despite gold rallying earlier this year to a high of US$1,300 per ounce it now appears to be in free fall, down by 5% since then to US$1,230 per ounce. There are signs it will fall further because of a stronger U.S. economy, higher U.S. interest rates, and a resurgent U.S. dollar that are applying significant pressure to the price of gold.

However, the concern of investors over the direction of the Eurozone and China’s economies is helping to support the price of gold.

The Eurozone has been caught in a deep slump for some time, and poor economic data from China is creating further global economic volatility and pessimism. Its real estate slump is continuing, with investment in the sector in December 2014 declining for the 12th straight month, while industrial activity during January 2015 contracted.

These catalysts continue to add support to the price of gold with investors not fully convinced the global economy is out of the woods yet. This leads to one conclusion that the outlook for gold is highly unpredictable, with both positive and negative catalysts set to affect its price.

Now what?

The uncertainty surrounding gold means investors should not “bet the farm”, but it is a perfect safe haven investment that allows investors to weather-proof their portfolios against economic and geopolitical uncertainty. I believe that Yamana offers one of the best options for investors seeking exposure to gold for this purpose.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

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