Agnico Eagle Mines Ltd.: One of the Best Ways to Weatherproof Your Portfolio

Description

When gold slumped to a 52-week low in early November 2014 because of a stronger U.S. dollar, it triggered a sharp sell-off of gold mining stocks, with the industry falling into further disfavour with investors. Since then gold has rebounded by 8% to be above US$1,230 per ounce, which has a positive impact on the outlook for gold-mining stocks.

Even with the outlook for gold remaining uncertain, I believe exposure to it is an important means of weatherproofing stock portfolios against market volatility and economic uncertainty. This is because it is the most widely recognized safe-haven investment available.

One gold miner that stands out as being one of the best for this purpose is **Agnico Eagle Mines Ltd.** (TSX:AEM)(NYSE:AEM).

So what?

Agnico Eagle reported some impressive full-year 2014 results and I believe it will continue to do so for the foreseeable future. For the full-year, it reported record gold production of 1.4 million ounces, with impressive all-in-sustaining-costs (AISCs) of US$954 per ounce or 4% lower than its guidance for the year. This gives Agnico Eagle one of the lowest cost structures in the industry. It is significantly lower than the world's largest senior gold miner, **Goldcorp Inc.**, which last reported AISCs of US$1,066 per ounce.

More impressively, Agnico Eagle has been able to grow its reserves by 18% compared to 2013, to 20 million ounces of gold by the end of 2014. A key strength of these reserves is their long life and high quality ore grades, which allows Agnico Eagle to keeps its production sustaining costs low.

These aspects of its operations, its focus on boosting ore grades, and the acquisition of the Canadian Malartic mine partnership with **Yamana Gold Inc.** offer Agnico Eagle considerable growth potential.

The Canadian Malartic mine has some of the highest quality ore grades in Canada and Agnico Eagle and Yamana are implementing a range of strategies to boost production and reduce operating costs at the mine.

The strength of the company's 2014 operational results sees it confirming its 2015 guidance, under which gold production is expected to grow to 1.6 million ounces or 7% higher than 2014. Its AISCs are expected to drop by up to 16% to between US$800 and US$900 per ounce. Furthermore, with a range of petroleum products being major inputs into the mining process, the recent marked downturn in crude prices bodes well for Agnico Eagle to further cut its operating costs.

These characteristics of Agnico Eagle's operations bode well for its earnings, even if the price of gold remains volatile and continues to slide southward.

A further positive aspect of Agnico Eagle's operations is the majority of its assets are located in the relatively low risk jurisdiction of Canada, from which the company obtains 80% of its production. This reduces the risks of production outages or changes in regulatory and taxation regimes that have the potential to severely impact its financial performance.

Evidence of the impact that unstable jurisdictions can be seen with the operations of Goldcorp and Yamana. Both have had to incur write-downs because off regulatory and taxation changes that have impacted their mining assets in Latin America.

Now what?

I believe that Agnico Eagle offers investors one of the best means of weatherproofing their portfolio against ongoing global economic and geopolitical volatility. It now appears attractively priced after its share price softened by 18% over the last six months.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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