



The Outlook for IAMGOLD Corp. Was Upgraded: Does This Makes it the Best Gold Play Under \$5?

Description

Mid-tier gold miner **IAMGOLD Corp.** ([TSX:IMG](#))([NYSE:IAG](#)) has seen its outlook upgraded by HSBC from “underweight” to “overweight.” With its share price down by 30% over the last year to be nudging \$3, this raises the question as to whether IAMGOLD is the best value mid-tier miner trading for less than \$5 per share.

So what?

As small-cap stocks, the risks associated with investing in mid-tier miners like IAMGOLD are high. These companies are among the most vulnerable to adverse movements in the price of gold. This is because they don't have the scale or the financial strength to weather softer gold prices for a sustained period, or survive major risk events relatively unscathed. Nevertheless, they do offer the potential for outsized returns, should their fortunes shine.

For 2014, IAMGOLD's net earnings declined steeply in comparison to 2013, to be down by a massive 75%. However, it wasn't alone, with other gold miners experiencing a similar fate. **Kinross Gold Corp.** ([TSX:K](#))([NYSE:KGC](#)) posted 2014 net earnings that were 61% lower, while **New Gold Inc.'s** ([TSX:NGD](#))([NYSE:NGD](#)) net earnings were down by 26%.

This can be attributed to a weaker gold price over the second half of 2014, with it coming under pressure from a resurgent U.S. dollar.

Impressively, IAMGOLD grew its annual gold production by 9% to a total of 834,000 ounces. This was greater than Kinross's modest 3% growth for the same period, and New Gold's disappointing 4% decline in gold production. This bodes well for investors in IAMGOLD and Kinross, because due to growing production, they can take advantage of the higher gold price witnessed of late.

Since hitting a 52-week low of US\$1,142 an ounce in early November, gold has rebounded by 5% to over US\$1,200 per ounce, but I don't expect this rally to continue. This is because there are signs that gold will soften over the next two years, with a stronger U.S. dollar and weaker oil prices weighing

heavily on its price. These signs have made analysts revise their outlook downwards. Goldman Sachs is now predicting an average price of US\$1,262 per ounce for 2015, and an even lower average price of US\$1,089 for 2016.

As a result, softer gold prices will be a feature of the investment landscape in the foreseeable future, making the cost structure of gold miners an important consideration for investors.

IAMGOLD's all-in-sustaining-costs (ASIC) for 2014 were US\$992 per ounce, which is comparable to Kinross's US\$965 per ounce, but both miners were trumped by New Gold with AISC of US\$779 per ounce. However, New Gold produces large amounts of copper, and this is set to weigh heavily on its future performance due to declining demand in China.

Now what?

IAMGOLD shapes up to be a solid investment for those investors seeking exposure to gold. This makes it my preferred choices when compared to New Gold.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:IAG (IAMGOLD Corporation)
2. NYSE:KGC (Kinross Gold Corporation)
3. TSX:IMG (IAMGOLD Corporation)
4. TSX:K (Kinross Gold Corporation)
5. TSX:NGD (New Gold Inc.)

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