



Should Investors Buy Yamana Gold Inc. After its Outlook Was Upgraded?

Description

Yamana Gold Inc.'s ([TSX:YRI](#))([NYSE:AUY](#)) outlook was recently upgraded despite weak gold prices. The improved outlook comes from steps being taken by the company to strengthen its balance sheet and reduce costs, and they are finally gaining traction.

However, this creates a question for investors: Does this make now the time to invest in Yamana, with gold expected to remain weak in the foreseeable future?

Now what?

Yamana reported record gold production of 1.4 million ounces for 2014, with production from continuing operations 16% higher than 2013. More importantly, in an operating environment dominated by low gold prices Yamana's all-in-sustaining-costs (AISCs) for continuing operations in 2014 were down by 1% year over year to US\$807 per ounce.

These were among the lowest in the gold mining industry in 2014. Yamana predicts that gold prices for 2015 will be between US\$800-830 per ounce. Such low AISCs will allow Yamana to remain profitable even if the recent weakness in gold continues because of a stronger U.S. dollar.

Yamana also expects its gold-only production to grow by 9% during 2015, and this will help to replace revenue lost due to weak gold prices. Over the long term its production will continue to grow, as Yamana has a range of mining projects under development and announced that it will proceed with the Cerro Moro mine in Argentina.

This mine is a high grade, low cost gold and silver project that is expected to commence production in the second half of 2017, producing 135,000 ounces of gold annually. The high quality of its ore grades will also help to reduce Yamana's overall AISCs once development is complete.

However, the outlook for gold remains poor. The strength of the U.S. economic recovery, a surging U.S. dollar, and the Fed considering raising interest rates in 2015 are placing considerable pressure on gold. Some analysts have changed their outlook, predicting that gold may fall to as low as US\$1,000 per ounce or even lower. If gold falls to these levels, I would not expect to see any bounce in

Yamana's share price, although it is unlikely that its share price would weaken considerably.

So what?

If anything, Yamana is a speculative contrarian bet on whether or not gold will rebound. Like all gold miners, it offers investors leveraged exposure to the price of gold, giving them greater potential returns than physical bullion or an ETF if the price of gold rises. It also provides the opportunity to invest in a best-of-class gold miner with a quality portfolio of assets, a solid balance sheet, and low operating costs that leave it relatively immune to weak gold prices.

For these reasons, I believe investors should have some exposure to Yamana to their portfolio. It will help to weather-proof their portfolio against economic volatility, but I certainly do not see it as a major investment holding.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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2. TSX:YRI (Yamana Gold)

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