



Could the Rally in Yamana Gold Inc.'s Shares Continue?

Description

Yamana Gold Inc. ([TSX:YRI](#))([NYSE:AUY](#)), one of world's leading producers of gold, silver, and copper, announced second-quarter earnings results after the market closed on July 30, and its stock has responded by rising over 2%. Let's take a closer look at the results to determine if this could be the start of a sustained rally higher, and if we should consider initiating long-term positions today.

A quarter of mixed growth

Here's a breakdown of Yamana's second-quarter earnings results compared with its results in the same quarter a year ago. All figures are in U.S. dollars.

Metric	Q2 2015	Q2 2014
Adjusted Earnings Per Share	(\$0.01)	\$0.06
Revenue	\$455.0 million	\$443.8 million

Source: Yamana Gold Inc.

In the second quarter of fiscal 2015, Yamana reported an adjusted net loss of \$8.3 million, or \$0.01 per share, compared to an adjusted net profit of \$49.9 million, or \$0.06 per share, in the year-ago period, as its revenue increased 2.5% to \$455 million.

The company's steep decline in net income can be attributed to higher expenses, including its total costs of sales increasing 11.9% to \$272.3 million. Its slight increase in revenue can be attributed to higher sales volumes, including its total gold sales increasing 15.4% to 292,181 ounces, its total silver sales increased 5% to 2.33 million ounces, and its total copper sales increasing 9.8% to 31.5 million pounds.

Here's a quick breakdown of 12 other notable statistics from the report compared with the year-ago period:

1. Total gold production increased 5.1% to 298,818 ounces

2. Average realized price of gold decreased 7.5% to \$1,195 per ounce
3. Total silver production remained unchanged at 2.37 million ounces
4. Average realized price of silver decreased 17.8% to \$16.28 per ounce
5. Total copper production increased 1.8% to 33.6 million pounds
6. Total copper sold increased 9.8% to 31.5 million pounds
7. Average realized price of copper decreased 6.4% to \$2.91 per pound
8. Cash cost per ounce of gold increased 11.7% to \$603
9. Cash cost per ounce of silver increased 0.3% to \$6.59
10. Cash cost per pound of copper decreased 20.6% to \$1.39
11. Mine operating earnings decreased 27.7% to \$58.4 million
12. Cash flows from operating activities from continuing operations decreased 13.7% to \$123.4 million

Yamana also announced that it will be maintaining its dividend of \$0.015 per share in the third quarter, and it will be paid out on October 14 to shareholders of record at the close of business on September 30.

Should you buy in to or avoid the rally?

It was a good quarter overall for Yamana, so I think the post-earnings pop in its stock was warranted. I also think this could be the start of a sustained rally higher because the stock still trades at favourable forward valuations, including just 18.5 times fiscal 2016's estimated earnings per share of \$0.13, which is inexpensive compared with its five-year average price-to-earnings multiple of 25.5.

I think Yamana's stock could consistently trade at a fair multiple of at least 25, which would place its shares around \$3.25 by the conclusion of fiscal 2016, representing upside of more than 35% from today's levels.

In addition, Yamana pays an annual dividend of \$0.06 per share, which gives its stock a 3% yield at current levels, and this is an added buffer to owning the stock today.

With all of the information provided above in mind, I think Yamana is one of the top turnaround plays in the metals and mining industry. Foolish investors should take a closer look and consider beginning to scale in to positions over the next couple of weeks.

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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