



Is Now Finally the Time to Buy IAMGOLD Corp.?

Description

Tumbling gold prices have never been kind to **IAMGOLD Corp.** ([TSX:IMG](#))([NYSE:IAG](#)), a mid-tier mining company with four operating gold mines across three continents. The company's stock is down over 50% in the past 12 months and down a whopping 90% over the past five years.

Things do seem to be turning a corner a bit, however. Shares are up over 10% in the past 30 days, hitting highs of \$2.60 just weeks ago. Is now finally the time to buy these incredibly beaten-up shares?

Treading on thin ice

On August 31st, Standard & Poor's lowered IAMGOLD's long-term corporate credit rating to B from B+, saying the company has a "highly leveraged financial risk profile over the next two years." The announcement has sent shares down 10% since.

Still, they consider IAMGOLD's liquidity position as "strong," reflecting the company's significant cash position. The company has \$680 million in cash compared to only \$670 in total debt. Compare this with a close peer like **Agnico Eagle Mines Ltd.**, which has roughly \$200 million in cash against \$1.2 billion in debt.

Despite the credit rating reduction, IAMGOLD remains one of the best financed gold miners in the world.

IAMGOLD needs higher gold prices to survive

Despite its healthy liquidity position, investors need to expect higher gold prices to justify an investment in IAMGOLD shares. At today's gold price, the company is generating negative free cash flow because of its high-cost mines. To demonstrate this, operating cash flow plunged by 50% in the first half of 2015 as a result of lower gold prices. Volatility in operating cash flow was lower for many lower-cost peers.

This year the company has produced an all-in sustaining cost of production of \$1,095 an ounce. With gold prices at \$1,120, its operations are producing very thin profit margins. While IAMGOLD is trying to bring all-in sustaining costs below \$1,000 an ounce, the feasibility of this is yet to be seen.

In all, if gold prices don't rebound, IAMGOLD would remain overpriced.

Still, shares are uncharacteristically cheap

Because the market is heavily discounting gold producers. IAMGOLD shares trade below working capital per share of \$2.20 and book value per share of \$7.00. Clearly, most investors aren't pricing in a return to higher gold prices.

While its liquidity clearly gives it time to survive, the company desperately needs to lower its cost of production and hope for higher gold prices to meet the book value of its assets. Without these two factors, shares are cheap for a reason. However, if you believe higher commodity prices are around the corner, IAMGOLD looks to be one of the better bargains the market has to offer.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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Author

rvanzo

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