



Is the Post-Earnings Drop in Yamana Gold Inc. a Buying Opportunity?

Description

Yamana Gold Inc. ([TSX:YRI](#))([NYSE:AUY](#)), one of world's leading producers of gold, silver, and copper, announced third-quarter earnings results after the market closed on October 29, and its stock responded by falling over 4% in the trading session that followed. Let's take a closer look at the results to determine if this weakness represents a long-term buying opportunity, or if it could continue lower from here.

Lower commodity prices lead to year-over-year declines

Here's a breakdown of Yamana's third-quarter earnings results compared with what analysts had expected and its results in the same quarter a year ago. All figures are in U.S. dollars.

Metric	Q3 2015 Actual	Q3 2015 Expected	Q3 2014 Actual
Adjusted Earnings Per Share	(\$0.02)	(\$0.01)	\$0.00
Revenue	\$448.9 million	\$472.34 million	\$494.4 million

Source: *Financial Times*

In the third quarter of fiscal 2015, Yamana reported an adjusted net loss from continuing operations of \$20.2 million, or \$0.02 per share, compared to an adjusted loss of \$1.3 million, or \$0.00 per share, in the same period a year ago, as its revenues decreased 9.2% year over year to \$448.9 million.

These weak results can be attributed to lower commodity prices compared with the year-ago period, which led to the company's average realized price of gold decreasing 12.1% to \$1,122 per ounce, its average realized price of silver decreasing 22.8% to \$14.88 per ounce, and its average realized price of copper decreasing 9.2% to \$2.85 per pound.

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

1. Gold production decreased 1.9% to 325,897 ounces and gold sales increased 12.8% to 317,859

ounces

2. All-in sustaining cost per ounce of gold decreased 3% to \$841
3. Silver production decreased 25.4% to 2.2 million ounces and silver sales decreased 16.4% to 2.25 million ounces
4. All-in sustaining cost per ounce of silver increased 28.6% to \$11.32
5. Copper production decreased 10.5% to 34 million pounds and copper sales decreased 18.5% to 29.1 million pounds
6. Cash cost per pound of copper decreased 11.3% to \$1.41
7. Mine operating earnings decreased 41% to \$49.7 million
8. Adjusted cash flow from operations before changes in non-working capital decreased 25.9% to \$133.9 million

Yamana also announced that it will be maintaining its dividend of \$0.015 per share in the fourth quarter, and it will be paid out on January 14 to shareholders of record at the close of business on December 31.

Should you buy or avoid Yamana today?

It was a disappointing quarter overall for Yamana, so I think the post-earnings weakness in its stock is warranted. However, I do not see significant downside from here, because its stock now trades at a mere 0.31 times its book value per share of \$7.08, and this is very inexpensive compared with its five-year average price-to-book value of 1.12.

Also, its stock now has a 2.7% yield. I think this yield, paired with its low valuation, makes it one of the top turnaround and dividend plays in the metals and mining industry today.

With all of the information provided above in mind, I think investors looking to add a gold producer to their portfolio should take a closer look at Yamana and consider beginning to slowly scale in to long-term positions over the next couple of weeks.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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