

Yamana Gold Inc.: A Cheap Price Doesn't Imply Value

Description

We're all in the stock market intending to make money. However, with news and emotions causing erratic price movements, we sometimes forget that there are real people behind these businesses and that how well a stock does depends on its earnings.

A cheap price doesn't imply value

Investors may be attracted to the cheap price of **Yamana Gold Inc.** ([TSX:YRI](#))([NYSE:AUY](#)). It costs only \$2.50 per share, but is it really cheap? You might think that it is because it has fallen from 2012's high of \$20, an 88% drop. However, its earnings per share fell from 93 cents in 2012 to six cents in 2014, an 83% drop.

Yamana Gold is not a good business to own. Its earnings have fallen for four years in a row, including this year.

Look for consistent earnings for consistent dividends

If you're looking for dividends, Yamana Gold is an even worse investment. It cut its quarterly dividend from 6.5 cents per share in 2013 to two cents per share today. So, the original dividend of 20 cents was cut 69% in total.

Of course, investors shouldn't buy Yamana Gold for its dividend. The business performance is highly dependent on the prices of precious metals. Falling precious metal prices will cause its share price to fall. *Lower earnings means a falling stock price and slashed dividends.*

If you're looking for consistent dividends, look for consistent earnings first.

How should you invest in Yamana Gold?

Yamana Gold may be a good turnaround opportunity at some point, but it looks like it has further downside because its 2015 earnings are expected to fall further from 2014. Further, the gold miner's S&P credit rating is BB+, which is quite weak.

For whatever reason, if you really must buy its shares, here are several ways investors can play Yamana Gold:

- You could dollar-cost average in and wait for the ultimate turnaround when commodity prices pick up again.
- Wait for Yamana Gold to post positive earnings before buying. This way, you'll likely lose the first leg up, but at least you won't be stuck in a losing business for an extended period of time.
- Look at Yamana Gold's technical chart and trade on the ups and downs. By the way, I wouldn't call that investing, but trading.

Conclusion

I like to buy businesses for the long term. There are so many good businesses out there. Do you really need to risk your hard-earned money with Yamana Gold? After all, you're buying a piece of the business when you buy shares in a stock.

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. TSX:YRI (Yamana Gold)

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