



Are Better Things Ahead for Yamana Gold Inc.?

Description

Gold-producing companies are more complicated to follow and invest in than, say, a typical manufacturer or service provider. The end product for a gold producer is the metal itself, which has a fluctuating (and always controversial) price.

Investors have been using gold as a store of value since the dawn of civilization and will more than likely continue to use the metal for countless more years. The metal is rare, in high demand, and the price has steadily gone up, save for when the bubble burst in 2011.

Yamana Gold Inc. ([TSX:YRI](#))([NYSE:AUY](#)) is a particularly interesting gold company as it doesn't have the massive reserves of some of its competitors, nor does it have the significant debt that other competitors have.

Here's a look at Yamana and why this may be the right gold company for you to invest in.

Yamana's current outlook

Yamana currently trades at \$3.63, mid-way between the 52-week high of \$5.40 and the low of \$1.89. Year-to-date, the stock is up impressively by over 40%, outperforming both the market and the company's gold-producing competitors.

Yamana technically does pay a dividend, but the amount of that dividend is too small to be of significance to investors considering a position in the company. The dividend is a paltry \$0.005 per quarter—a yield of less than 1%.

In the most recent quarter Yamana recorded revenues of US\$463 million with an adjusted loss from operations of just US\$0.01 per share. Net loss from operations amounted to US\$1.8 billion for quarter, or US\$1.95 per share. US\$1.8 billion of that amount is related to after-tax impairments.

Looking ahead to 2016 and 2017

Yamana successfully reduced debt by US\$286 million during 2015, and the company has come forth

with a plan to further reduce debt by US\$300 million over the next two years through the monetization of secondary assets and metals as well as from organic cash flow generation.

In terms of production, Yamana is targeting between 1.23 million and 1.31 million ounces of gold for 2016. It is also targeting between 6.9 million and 7.2 million ounces for silver. The company is forecasting copper production to be in the range of 122-125 million ounces.

By comparison, in 2015 Yamana produced a record 1.28 million gold ounces, 9.0 million ounces of silver, and 131 million ounces of copper.

One factor that gold producers have little control over is the price of gold itself. Over the past few years, as prices have dropped to sub-US\$1100 levels, revenues and profits for gold producers have eroded. Fortunately for Yamana and others, the price of gold has recently increased and has been holding north of US\$1,200 per ounce for some time now. While the price increase has held, gold investments are still considered fairly risky.

In my opinion, a small position in Yamana would be a good investment for investors who have an appetite for risk. The company has long-term potential, a commitment to decreasing debt, and a sizeable production base.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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