3 Reasons to Consider Yamana Gold Inc.

Description

Finding the right mix of investments is something that investors constantly struggle with. Diversifying a portfolio to the point of attaining that near-perfect mix of stocks across the economy can be daunting to some.

Here are a few reasons why investors should consider an investment in **Yamana Gold Inc.** (TSX:YRI)(NYSE:AUY).

1. The gold market is starting to pick up again, and so is Yamana's stock price

For as long as we've been able to extract gold from mines, the precious metal has been used as a store of wealth. Gold is rare, has high demand, and the price has nearly always trended upwards. When the market shows uncertainty or weakness, investors often run to the safe-haven shelter that the precious metal represents, which results in an increase in price.

After climbing to nearly US$2,000 per ounce in 2011, gold dropped to sub-US$1,100 levels while the market continued to grow at a healthy pace. As the economy started to weaken and the price of certain commodities dropped, a renewed interest in gold started to take shape last year.

The prolonged weakness in gold prices forced gold producers to cut costs and become more efficient. All-in sustaining costs dropped all throughout last year for many producers; Yamana hit US$842 per ounce over the course of the full year and US$753 per ounce in the most recent quarter.

Yamana currently trades at $5.26. The stock is impressively up by 104% year to date, although much of this erases prior losses on the stock; when looking back over the course of a full year, the stock is still up, but only by 7.7%. Looking back even further, the price of the stock was nearly $20 per share back in the 2011-2012 period.

2. Yamana is focused on reducing debt and looking ahead in 2016 with a plan

In January of this year, Yamana was trading below $2 and was awash in debt. Yamana managed to reduce debt by US$286 million last year and has plans to reduce debt by another $300 million over the next few years.

Yamana did plan to spin off non-core assets into a new subsidiary called Brio Gold, but this sale was stopped back in December of last year. The proceeds from that sale were slated to be used to reduce Yamana's debt further.

Looking ahead to 2016, Yamana is targeting 1.2-1.3 million ounces in terms of gold production and 6.9-7.2 million ounces of silver production. With the price of gold now US$200 per ounce higher than where the price bottomed out last year, the increase will spell greater revenues for the now-efficient producer.

3. Earnings are looking positive

Looking back over the past few months, there have been a number of earnings estimates released for Yamana. Most of these have been revised upwards. The expected loss of $0.04 per share over the full year a few months ago is now appearing to be earnings per share of $0.04.

As the price of gold continues to hold north of US$1,200 per ounce and Yamana's costs and debt continue to come down, the earnings and, by extension, the appeal of the stock to investors can only increase.

Gold is still very much a risky investment, but Yamana remains a great option for those investors considering investments in gold stocks.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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