



Agnico Eagle Mines Ltd. Was Downgraded 3 Times This Summer: Should You Sell?

Description

Despite a strong run-up in gold prices, **Agnico Eagle Mines Ltd.** ([TSX:AEM](#))([NYSE:AEM](#)) has had a rough summer with Wall Street analysts.

On July 14 **Dundee Corp.** downgraded the company to “Neutral” from “Buy.” Then on August 2 **Citigroup Inc.** placed a “Sell” rating on Agnico shares. A week later **Royal Bank of Canada** downgraded the stock from “Outperform” to “Sector Perform.”

Why has Wall Street suddenly turned sour on shares? Should you be worried?

Downgraded for the best reason possible

When companies get downgraded, it's often because operating conditions are deteriorating or due to some other negative externality. For Agnico, it appears as if everything is going right; it's just that the entire market has already realized that.

For example, according to RBC analyst Stephen Walker, the downgrade is due to the stock's rising valuation, not it's underlying fundamentals. While it's consistently meeting or exceeding production and profitability targets, this record of success is now already priced into shares. Expectations for future success are also already baked in.

“The shares appear to be currently pricing in the recent favourable guidance revision as well as the expected Q4 16 and year-end reserve additions,” Walker commented.

RBC's new price target of \$67 is roughly \$4 lower than the current stock price.

Time to sell?

Still, there's reason to believe that shares won't fall if macro-conditions hold. According to RBC's own analysis, Agnico's stock is only pricing in gold prices of \$1,315 an ounce—below the current price of \$1,353. Next year the average Wall Street analyst is expecting the company to grow earnings by about

80%.

Even Agnico's own CEO is getting in on the market's growing optimism. Even if you missed gold's climb to a two-year high in early July, CEO Sean Boyd recently said that the rally in gold miners is just getting started. "I think in this cycle, they will ultimately set an all-time high," Boyd commented, adding that Agnico is "one of the very few companies that can see its output 30-40% higher in five years from now from stuff we already own."

He believes that Agnico is ready to ride some large secular tailwinds. "There's still a tremendous amount of debt in the system," he said. "There's an inability to create conditions for growth. You've got a negative-interest-rate environment, which is a great environment for gold from an opportunity-cost standpoint. And you've still got very strong demand coming out of China and India. So all the factors are there that can steadily move gold up."

All about gold

As usual, Agnico stock will ultimately move strongly with the direction of gold prices. Analysts that downgrade shares because of an overpriced valuation clearly aren't looking forward to a multi-year future of higher prices. If you're inclined to agree with Agnico's CEO (that gold prices will ultimately set all-time new highs), don't worry about Wall Street's fuss.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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