Can Yamana Gold Inc.’s Monster Rally Continue?

Description

Only eight months ago, the beaten-down gold mining industry was on life support when the price of gold fell to its lowest level in years and below the cost of production for many miners. Since then gold has rallied strongly and is up by an impressive 25% for the year to date, triggering considerable interest in gold mining stocks as many have recently soared to highs not seen since 2014.

This has led to many investors speculating about which gold miner is the best way to play what many analysts are claiming to be the new bull market in gold. **Yamana Gold Inc.** (TSX:YRI)(NYSE:AUY) is certainly worthy of consideration.

Now what?

Back in April 2014, Yamana teamed up with **Agnico Eagle Mines Ltd.** to acquire takeover target Osisko Mining Corp. for $3.9 billion in what was touted to be a gaming-changing deal for both companies. This was because it gave them each a 50% share in what was and still is considered to be one of the best gold mining assets in the industry: the Canadian Malartic mine.

Since then both miners have worked to exploit this asset to its maximum effect, driving higher production through the implementation of efficiencies, which caused Yamana’s second-quarter 2016 share of the gold output to grow by 6% year over year. In conjunction with a significant uptick in tempo at a number of Yamana’s other mines, this caused its overall second-quarter production to increase by 7% compared with the same period in 2015.

The healthy increase in gold production couldn’t have come at a better time for Yamana. The gold rally allowed it to sell the gold at an average price that was 6% higher than it was a year earlier.

All of these factors gave Yamana’s bottom line an impressive bump, generating a US$32.9 million net profit compared to a US$7 million loss for the same quarter in 2015.

I expect Yamana to continue performing strongly with its production and profitability set to grow, allowing it to make the most of the favourable operating environment.

During the first half 2016, Yamana closed a US$54 million deal to acquire the Riacho Dos Machados gold mine in Brazil. This has added 50,000 ounces of annual gold production to its operations, and the mine’s output is forecasted to grow to 94,500 ounces by 2018. It also has relatively high ore grades for an open pit mine, meaning that as the acquisition is bedded down and efficiencies are recognized, its cash costs of US$807 per ounce should fall considerably, boosting profitability.

The development of the Cerro Moro mine in Argentina is also progressing and is expected to come online during the second half of 2017. This project is particularly important for Yamana because of the mine's high-quality ore that will add 135,000 ounces of gold to its annual production at an exceptionally low cash cost of US$400 per ounce.

Yamana plans to shave US$300 million off its US$1.7 billion of debt by the end of 2017, which will create considerable savings by reducing financing expenses. This appears achievable in the current operating environment. Yamana has already agreed to sell the Mercedes mine in Mexico for US$122.5 million in cash and is forecasting increased cash flow from higher gold prices.

So what?

Gold miners can be a risky investment because mining is an inherently hazardous activity. Nonetheless, because of its disciplined approach to balance sheet management, relatively low costs, quality assets, and growing production, Yamana is a hard company to ignore.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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mattdsmith