Agnico Eagle Mines Ltd. Will Grow Gold Production Like a Weed

Description

With gold prices up 26% this year, most gold miners have seen their stocks explode higher. **Agnico Eagle Mines Ltd.** (TSX:AEM)(NYSE:AEM), for example, is up 88% since January.

This week, the company released some data showing that gold reserves are ramping up. This growth is expected to continue for some time and, in a short time, result in production gains. Plus, the CEO has made some rosy comments about his expectations for the future price of gold.

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Continued resource growth at its biggest project

Amaruq, a mega project located in Nunavut, which was acquired in 2013, is seeing big strides in both production and reserves.

Drilling in the first half of 2016 resulted in an updated inferred mineral resource estimate of 3.71 million ounces of gold. This represents an increase of 432,000 ounces compared to the company's previous estimate. Additionally, the company discovered a new resource vein that may hold over 500,000 ounces of gold.

"The 2016 exploration program at Amaruq has resulted in an increase in gold resources and the delineation of a potential second source of open pit ore at the V Zone. In just a short period of time, we have seen Amaruq advance from a grassroots discovery to a significant development project with 3.7 million ounces of gold resources," said Sean Boyd, Agnico's CEO.

Exploration efforts are expected to wrap up in October with new results to be released in February.

Is growth ready to roar?

Thanks to its successful exploration attempts, Agnico has quickly built a portfolio of high-quality assets that will likely produce 30-40% more gold by 2020. Costs are also low and falling. This year theyshould come in at $840-880 per ounce (previously $850-890).

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."

There are some major macroeconomic tailwinds ready to drive the gold market to new heights.

"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."

Next year the average Wall Street analyst is expecting the company to grow earnings by about 80%.

Is the valuation too high?

This summer Agnico was downgraded three times by Wall Street analysts due to an overstretched valuation. It appears as if the market has caught on to the company's record of success.

Still, according to an analysis done by **Royal Bank of Canada**, Agnico's stock is only pricing in gold prices of $1,315 an ounce–slightly below the current price of $1,319. The valuation looks fully priced, but if you're a believer in higher gold prices (like Agnico's CEO), shares surely have further upside to go.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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