Yamana Gold Inc. Tries the IPO Route for Brazilian Asset Exit

Description

Yamana Gold Inc. (TSX:YRI)(NYSE:AUY) continues to be one of the most unique gold producers on the market. I'm not saying this because I'm impressed by the company (which I am, and think it's a great investment), but because Yamana is one of just a handful of gold producers that have made long-standing commitments to improving their bottom lines.

Back in 2011, gold prices were soaring upwards of US$1,900 per ounce. Gold producers were taking on significant debt, opening new mines, and running largely inefficient processes. Despite this, the high price of gold allowed them to carry on and still turn a profit.

This all changed when gold prices dropped, finally settling at the sub-US$1,100 per ounce a year ago. Those same gold producers were now very much aware of those inefficiencies and made cost-cutting efforts and debt reduction a priority.

Yamana was among those companies. It put forth a plan to reduce debt by US$286 million in 2015 and a further $300 million between this year and next year, primarily through continued improvements in efficiencies, as well as monetization of certain assets.

Yamana has met that 2015 target; the Brio subsidiary is one of those non-core assets that will help meet or exceed that 2016 goal.

Yamana's Brio Gold subsidiary

The Brio subsidiary operates three Brazilian mines. Last year, amid cost-cutting efforts by Yamana, an attempt was made to sell off the stake in Brio via private share placement. That plan was subsequently scrapped, and Yamana put a renewed focus into other, more core mines that have higher production, including several in Brazil.

In terms of production, Brio is targeting over 255,000 ounces of gold this year from all three of the mines in Brazil. By comparison, the two remaining mines in Brazil, which are deemed core assets, produced 215,775 ounces of gold last year between them.

One of the more interesting parts of the proposed spin-off is how existing Yamana shareholders will be compensated. Under the proposed plan, existing Yamana shareholders are set to receive a dividend in kind; they can use it to buy shares in the new unit, which will be priced based on demand.

Even after the deal is complete, Yamana intends to maintain some exposure to Brio, thanks in part to retained equity interest following the deal.

What does this mean for Yamana investors?

Yamana has been trying to offload Brio assets for nearly two years. The company has attempted both a private placement and as a sale, both of which didn't follow through.

The sale of the Brio subsidiary could be seen as beneficial to Yamana's bottom line, particularly as the company has noted the proceeds would be used to reduce company debt. In the period since Yamana embarked on the current cost-cutting measures, gold prices have recouped some, but not all of the losses sustained in the past few years.

Just this year, gold prices have shot up by over 15%, sending the stocks of gold producers like Yamana up for the ride. While Yamana's stock price has since retreated some ways in the past few months, the stock is still up over 90% year-to-date.

In my opinion, Yamana represents an interesting, yet risky opportunity for investors. The company has a stated goal to reduce debt, which should be attainable thanks in part to the increase in gold prices over the past year. That being said, there is an argument to made that the best course of action would be to wait over the possible sale of the Brio subsidiary, which will not only reduce the company's remaining debt, but also make Yamana a much healthier investment.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. TSX:YRI (Yamana Gold)

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/09/26
Date Created
2016/10/18
Author
dafxentiou