



## Yamana Gold Inc.: A Year in Review

### Description

Gold producers such as **Yamana Gold Inc.** ([TSX:YRI](#))([NYSE:AUY](#)) will no doubt put 2016 down as another year of extremes.

While it was nowhere near as painful as the past few years, 2016 has been eventful. Here's a look at how Yamana fared in 2016.

#### The return of the gold bug

The first half of the year saw something that every single company in the precious metals sector had been hoping for: a rally in gold prices.

At the start of the year, gold prices were hovering at the sub-US\$1,100 mark—the lowest price seen in over five years in what ultimately would be the bottom point of a multi-year drop in prices that started back in 2011 when gold prices, which were near US\$1,900 per ounce, started dropping.

While prices were down to those multi-year lows, gold producers had to turn to aggressive cost-cutting measures and prioritize the lower-cost, higher-production mines over less-efficient ones. That efficiency eventually paid off as gold prices started to appreciate, and in a big way.

By the end of April, Yamana's stock price was already up over 100% for the year, and the company was in a much better position than in prior years thanks in part to an improvement in cash flow, which started to materialize just in time for the start of the gold price rally.

Yamana's meteoric rise finally came to a halt with the company pushing past a 200% stock price gain for the year by mid-July. Several events, such as the Brexit vote and subsequent fallout, impacted the price surge.

Leading up to and immediately following the Brexit vote, there was initially widespread fear in the market; it pushed investors back to the relative safety of gold in the months leading up to and immediately after the "leave" vote.

## Post-Brexit, debt reduction, and the Brio IPO

Following the peak in prices this past July, gold prices eventually started to settle and then retreat, bringing Yamana and the rest of the gold market back down from the stratosphere. The Brexit was not as apocalyptic for markets as some had speculated, and, despite some drops post-vote, a broad recovery was seen across the economy—just not in the gold market.

Thanks to better gold prices earlier in the year, Yamana had the benefit of posting significantly better results, which the company used to pay down some debt. As part of cost-cutting efforts, Yamana instituted a targeted debt reduction of \$300 million over the course of this year and next.

Those cost-cutting efforts also consisted of winding down some assets and selling them. Yamana identified several non-core assets that could be sold off with proceeds used to reduce debt. Among the candidates to be sold was a string of subsidiary mines in Brazil known as the Brio mines.

When Yamana first started to look at cost-cutting efforts last year, the Brio subsidiary was identified as a non-core asset that could be sold. Yamana subsequently backtracked on the sale, but this past fall Yamana attempted another method to offload the Brio venture.

Yamana opted to offload the Brio venture through an IPO. The proposed plan called for Yamana shareholders to receive a dividend in kind, which could, in theory, be used to purchase shares in the new unit based on demand. Despite Yamana wanting to offload the venture, the plan called for Yamana to retain equity interest, assuming a deal was ever signed.

In the latter part of the year, gold prices retreated further, fueled by the unexpected election of Donald Trump, who has promised to spend significantly on infrastructure and save jobs. Those promises have sent markets roaring forward and away from gold.

A little over two weeks before 2017, it no longer seems out of the question to have gold prices retreat to where they were at the start of the year. Irrespective of where gold prices end up finishing in 2016, Yamana remains a much stronger company that is more efficient with better financials.

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