



Yamana Gold Inc. (TSX:YRI) Is Still Struggling to Unlock Value Despite Higher Gold

Description

Gold has been on a [tear](#) since late 2018, gaining over 3% for the year to date and buoying gold miners. The growing optimism surrounding the outlook for the yellow metal makes now the time for investors to bolster their exposure to gold. One intermediate gold miner that, according to some [pundits](#), appears attractively valued is **Yamana Gold** ([TSX:YRI](#)) ([NYSE:AUY](#)).

Intermediate miner focused on South America

Yamana owns a diversified portfolio of gold mining assets that — along with including Canada's largest gold mine, the Canadian Malartic, which generates a quarter of the miner's revenue — is focused on South America, where it owns five operating mines. For 2018, Yamana announced that it had exceeded its 2018 production guidance with its annual metals output, reaching 1,041,350 gold equivalent ounces, which was almost 3% greater than its annual forecast and around 6% higher than a year earlier.

A key driver of that improved operational performance compared to 2017 was a 60% increase in silver output because of the Cerro Morro mine being commissioned in December 2017. That mine will continue to be a positive catalyst for increased precious metals output, as Yamana further develops the mine and ramps up activity.

All-in sustaining costs (AISCs) for 2018 were US\$931 per ounce sold, which are at the upper end for the gold mining industry, highlighting that Yamana needs gold to keep trading at above US\$1,300 per ounce if it is to grow earnings.

Regardless of a credible operational performance, Yamana's full year financial results were not particularly impressive. It reported a net loss of US\$298 million, which was around US\$100 million more than the US\$198 million loss reported a year earlier. This was also the sixth straight year where Yamana reported a loss and can be attributed to the miner recording an impairment charge of US\$153 million on non-operating mining properties in its portfolio. Annual free cash flow also declined, falling by

14% compared to 2017 to US\$216 million for many of the same reasons as the deterioration in the miner's net income.

High AISCs have not helped Yamana's financial performance, and despite management's moves to rein in costs, they continue to afflict the company.

Yamana's 2019 production is expected to remain relatively flat with overall gold output forecast to rise by a mere 2% year over year to 1.06 million gold equivalent ounces. That — along with high AISCs — will continue to weigh on its performance. Annual AISCs are projected to be between US\$920 and US\$960 per gold equivalent ounce produced, which, at the upper end of that guidance, is US\$29 an ounce higher than 2018. Those expenses are also high in comparison to many of Yamana's peers and indicate that the company needs gold to continue trading at current levels if its earnings are to grow.

Even the considerable promise held by its Argentine Cerro Morro mine, which commenced production in December 2028 on schedule and on budget, doesn't make Yamana an overly appealing investment.

The miner's attractiveness as an investment is further reduced by Yamana's considerable long-term debt totaling US\$1.7 billion, which is also a worrying four times operating cash flow.

Is it time to buy Yamana?

Firmer gold and the increasingly positive outlook for the yellow metal make the gold mining industry an attractive investment. While Yamana is not the worst of the bunch, there is very little aside from the Canadian Malartic and Cerro Morro mines that make it an attractive investment. High AISCs and a weak balance sheet continue to weigh on its outlook and earnings potential. Aside from higher gold, there are no other clear catalysts that will drive significant operational improvements or financial performance, meaning that there are far better opportunities for investors seeking exposure to gold.

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