A High-Yield Gold Stock That's Too Cheap to Ignore After a 50% Drop

Description

Commodity stocks have taken a hit to the chin over the past few weeks. They were one of the last pillars of stability as the broader stock market fell into correction (a 10% drop from peak to trough). But now, some of the sold-off commodity plays are down more than the averages. Today, oil is fluctuating in the US$95-100 range and those red-hot oil stocks went from rallying in the face of market volatility to leading the charge lower. Meanwhile, gold has settled in the US$1700 range, down from the US$1800-1850 range it settled in for most of the past year.

Undoubtedly, many folks are readying up for a recession that could happen as soon as late 2022. Though a 2023 recession seems likelier, according to RBC analysts who see a "short-lived" one happening earlier next year, beginner investors must know how to react during such down markets. To the surprise of many meme stock speculators, markets don't always go up. And when they do dip, the V-shaped recovery that many of us have been conditioned to buy, is not always in the cards.

Commodity prices have been incredibly choppy

Indeed, 2022 has been quite a wake-up call for many new investors. The bear market in the S&P 500 is now nearing seven months, while a Nasdaq 100 is attempting to stage a partial comeback from the worst tech-concentrated sell-off since the dot-com bust. Meanwhile, investors who considered commodity stocks a worthy hedge or "easy" way to beat the markets in 2022 may find them nearly as difficult to hold as many fallen tech stocks.

Chasing momentum is never a good idea. It doesn't matter if we're talking high-flying tech plays or commodity producers. Anything that can rise quickly can fall quickly. That's why investors need to put in extra due diligence in the valuation process when it comes to the high-flyers. Not all of them are overvalued and overdue for a huge plunge. In any case, the recent dip across the broader basket of commodity plays seems buyable for those investors who lack exposure.

Let's look at one beaten-down gold play **Agnico Eagle Mines** (TSX:AEM).

Agnico Eagle Mines

Agnico Eagle Mines is a top-tier gold miner that's fallen hard in response to the pullback in gold prices. Shares are down over 53% from their all-time highs to $52 per share. The dividend yield has swelled to just shy of 4%, making the miner one of the most bountiful ways to play a recovery in gold prices going into year's end.

At US$1,725 per ounce, gold is a far cry from its peak just north of US$2,000 per ounce. With all the inflation and geopolitical uncertainty, it's perplexing to many as to why gold isn't at or around its all-time highs. Indeed, the magnitude of uncertainties could not be greater.

With a potential recession on the way, gold may be in a spot to pick up traction again, as investors flock towards less-volatile "safe haven" types of assets.

Agnico Eagle is a well-run gold miner with operations in Canada, Mexico, and Finland. Earlier this year, Agnico completed its merger with Kirkland Lake Gold. The gold behemoth reportedly has a 48-million-ounce gold reserve base and an intriguing production pipeline. Agnico expects payable gold production to jump from 2 in 2021 to 3.2–3.4 million ounces in each of the next three years with relatively stable costs declining further in 2023–2024 as a result of synergies from its merger with Kirkland Lake Gold Ltd. These operational efficiencies and rising operating cash flow could help support its new share buyback program and future dividend payouts.

Looking out to the next five years, I expect Agnico to drive operational efficiencies through the roof. Though the underlying economics of operations are incredibly solid today, I'd argue that even lower-cost production could be on the horizon. Simply put, Kirkland's wealth of assets are in the much better hands of Agnico's managers.

Bottom line

At writing, AEM stock trades at 4.4 times sales and 20.7 times trailing earnings. With a low 0.76 beta and a swollen dividend, Canadian investors lacking precious metals (or any lowly-correlated commodity stocks) should think carefully about initiating a position after a more than 50% haircut in the stock.

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