



Forget Tech: Buy Gold Stocks Instead!

Description

In the past 52 weeks, **Yamana** ([TSX:YRI](#))([NYSE:AUY](#)) has seen its shares increase 52%, which outpaces the increase of the **S&P/TSX Composite Index** at 15%.

Yamana is a Canadian-based gold, silver, and copper producer with a portfolio of operating mines, development state projects, and exploration and mineral properties throughout the Americas.

The company operates mainly in Canada, Brazil, Chile, and Argentina. Yamana reports a market capitalization of \$4.63 billion, with a 52-week low of \$2.41 and a 52-week high of \$5.24.

Intrinsic price

Based on my calculations, using a precedent transaction model, I determined that Yamana has an intrinsic value of \$9.73 per share. The precedent transaction model was created with data on the acquisitions of Goldcorp, Randgold, and Detour **Gold**.

At the current share price of \$4.87, I believe Yamana is significantly undervalued. Investors looking to add an intermediate gold producer to their RRSP or TFSA should [consider buying shares](#) of Yamana.

Yamana has an implied enterprise value of \$10.9 billion, which represents the theoretical price a buyer would pay for all of Yamana's outstanding shares plus its debt. This includes a 3% median premium that buyers have been paying for target companies in the gold industry.

Financial highlights

For the nine months ended September 30, 2019, the company reported a poor, but improving balance sheet with US\$3.46 billion in negative retained earnings, up from negative US\$3.65 billion as at December 31, 2018.

This is not a good sign for investors, as it indicates the company has had more years of cumulative net

loss than net income.

Given shareholders' equity of US\$4.2 billion and goodwill and intangibles of US\$394 million, the company reported a tangible net worth of US\$3.8 billion. This is a good sign for investors, as tangible net worth is widely regarded as the real value of a company.

Total revenues are down slightly to US\$1.2 billion from US\$1.3 billion in 2018 (-7%) driven by a US\$94 million decline in sales in the copper segment. Pre-tax earnings were up to US\$269 million from negative US\$168 million in 2018, driven by a US\$228 million gain relating to the sale of its Chapada mine.

The company reported operating cash flows (net income + depreciation, depletion, and amortization) of US\$621 million, up from US\$139 million in 2018. Management takes an acquisition-centric approach to growth, as indicated by acquisitions amounting to US\$246 million in 2019 and US\$339 million in 2018.

Further, management is keen on keeping its debt in check, as indicated by a US\$951 million pay-down of term loans in 2019 and a US\$442 million pay-down in 2018. This is slightly offset by proceeds from term loans amounting to US\$240 million in 2019 and US\$435 million in 2018.

The company is a [dividend-paying entity](#) with a dividend yield of 1.07%, which is achieved through quarterly payments of US\$0.01 per share.

Foolish takeaway

Investors looking to buy shares of a gold producer should consider buying shares of Yamana. Despite its negative retained earnings and decreased revenues, it has an adept management team keen on reducing its debt and growing the business.

Using a precedent transaction model, I determined Yamana's intrinsic value to be \$9.73, which represents a steep premium to the \$4.87 it is currently trading. RRSP and TFSA investors would be wise to buy in.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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