Yamana Gold Corp. (AUY)

Updated June 6th, 2018 by Josh Arnold

Key Metrics

Current Price:	$3.00	**5 Year CAGR Estimate:**	5.7%	**Quality Percentile:**	N/A
Fair Value Price:	$3.45	**5 Year Growth Estimate:**	2.1%	**Momentum Percentile:**	N/A
% Fair Value:	87%	**5 Year Valuation Multiple Estimate:**	2.9%	**Total Return Percentile:**	N/A
Dividend Yield:	0.7%	**5 Year Price Target**	$3.75	**Valuation Percentile:**	N/A

Overview & Current Events

Yamana Gold began its operations in 2003 and has since grown its annual revenue to nearly $2B via mining sites in Canada, Mexico and South America. Yamana produces gold, silver and copper and has a $2.8B market cap.

AUY has struggled in recent years with both production and costs, but the recently reported Q1 was a bright spot. AUY was profitable in Q1 on an adjusted basis, with operating earnings coming in at $7.6M excluding a non-cash carrying value adjustment for the company's Brio Gold interest. Gold production was ahead of schedule and costs came in slightly better than planned as AUY continues to try and regain a meaningful level of profitability. The company also reiterated its production goals for the year and stated that the back half of the year will see a ramp in production, meaning profitability should improve further in 2018 as volumes move higher. AUY has a lot of work to do but Q1 showed it is on the right footing to make it work.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
BV/S	$8.88	$9.20	$9.77	$9.98	$10.39	$9.48	$7.65	$5.11	$4.76	$4.55	***$4.50***	***$5.00***
DPS	$0.03	$0.04	$0.08	$0.16	$0.24	$0.26	$0.18	$0.06	$0.03	$0.02	***$0.02***	***$0.04***

AUY's book value rose meaningfully in the years leading up to 2012 when metal prices were very high, but since that time, it has declined steadily. The past five years have seen AUY report lower book value each year and while 2018 is a year of transition for AUY, we see it as the bottom. Earnings should begin to recover and since the company appears to be done with sizable write downs, we see book value moving 2.9% higher annually going forward to $5 in 2023.

AUY will achieve this mostly via higher production totals but also with some measure of margin expansion. The company's new Cerro Moro mine – which contains gold and silver – should see production ramp into the back half of the year. AUY has planned to bring gold production from the mine forward at the expense of silver in order to recoup some of its costs more quickly, so that it can recognize the value of the mine sooner than it otherwise would. The company's Gualcamayo mine is being held for sale but is still on track to produce 110k ounces of gold this year. If/when it is sold, AUY will lose that source of revenue but will produce cash in its place that can be used for other purposes. Looking forward, we should see production move higher as a result of the Cerro Moro mine coming fully online after it began production in Q2. This increase in volume should result in lower production costs and thus, better margins. AUY is certainly not without its risks to earnings but 2018 looks like the bottom at this point.

We see improving earnings as a catalyst to raise the dividend, which is currently 2 cents annually. We forecast it rising to 4 cents as AUY uses excess cash to reward shareholders while keeping the payout ratio very manageable.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/B	0.87	1.24	1.31	1.47	1.66	0.91	0.53	0.36	0.59	0.69	***0.65***	***0.75***
Avg. Yld.	0.3%	0.4%	0.7%	1.1%	1.5%	2.2%	2.4%	2.0%	0.8%	0.7%	***0.7%***	***1.0%***

AUY's price-to-book value has obviously declined as a result of the significant drop in earnings and the carrying value of the company's assets since 2012. However P/B has increased meaningfully since the bottom in 2015 and we see the gains that have been made as largely complete. Today's P/B is 0.65 and we see it rising an average of 2.1% annually to a more normalized 75% over time. The increase in the dividend should see the yield rise to 1% from the current 0.7%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	31.8%	59.5%	44.7%	65.5%	61.9%	49.5%	41.9%	37.6%	-23.2%	4.3%	***20.0%***	***25.0%***
Debt/A	30%	32%	31%	30%	33%	37%	46%	49%	48%	49%	***49%***	***45%***
Int. Cov.	11.4	10.5	33.1	169.9	195.4	-16.3	-11.8	-19.2	-4.9	-2.3	***-1.5***	***1.0***
Payout	5%	14%	11%	18%	32%	77%	--	--	65%	32%	***29%***	***24%***
Std. Dev.	84%	50%	26%	36%	35%	34%	48%	68%	87%	41%	***45%***	***51%***

AUY's margins have risen and fallen with production and spot metal prices over the years but we see them moving higher, which will drive earnings growth. The company's debt is very manageable at less than half of assets but its interest coverage could use some work. We think rising earnings will help the company cover interest expense in the near future. The payout ratio will remain low despite the dividend moving higher, so AUY is in decent shape here.

AUY doesn't have many advantages but one thing it has that some of its competitors do not is a significant, new source of production in Cerro Moro. This is enormously important for AUY's future so investors should monitor its development closely. It also is more dependent upon metal prices than economic conditions, so the next recession shouldn't matter.

Final Thoughts & Recommendation

On the whole AUY looks like a decent growth stock that is slightly undervalued at present, but it is certainly not without its risks. We are forecasting 5.7% annual returns going forward, consisting of the current 0.7% dividend yield, 2.1% book value growth and a 2.9% tailwind from a higher valuation. At current prices the mediocre expected total returns don't compensate investors enough for the risks present at Yamana Gold.

Total Return Breakdown by Year