



# Yamana Gold Corp. (AUJ)

Updated October 31<sup>st</sup>, 2018 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$2.35	<b>5 Year CAGR Estimate:</b>	10.6%	<b>Volatility Percentile:</b>	99.3%
<b>Fair Value Price:</b>	\$3.40	<b>5 Year Growth Estimate:</b>	2.1%	<b>Momentum Percentile:</b>	26.8%
<b>% Fair Value:</b>	69%	<b>5 Year Valuation Multiple Estimate:</b>	7.6%	<b>Growth Percentile:</b>	7.7%
<b>Dividend Yield:</b>	0.9%	<b>5 Year Price Target</b>	\$4.00	<b>Valuation Percentile:</b>	92.0%
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	F	<b>Total Return Percentile:</b>	58.7%

## Overview & Current Events

Yamana Gold began operations in 2003 and has since grown its annual revenue to \$1.8 billion via mining sites in Canada, Mexico and South America. Yamana produces gold, silver and copper and has a \$2.2 billion market capitalization.

Yamana posted Q3 earnings on 10/26/18 and results were strong. However, gold production was up 11% to 269K ounces and silver production rocketed 78% higher to 2.55 million ounces. In addition, all-in sustaining costs fell 3% for gold and 26% for silver, significantly improving margins. Adjusted earnings-per-share came in at \$0.02, which was in excess of expectations for one penny. Yamana also raised gold production guidance while lowering silver production forecasts, and announced it had sold its interest in the Gualcamayo mine for \$85 million.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>BV/S</b>	\$8.88	\$9.20	\$9.77	\$9.98	\$10.39	\$9.48	\$7.65	\$5.11	\$4.76	\$4.55	<b>\$4.50</b>	<b>\$5.00</b>
<b>DPS</b>	\$0.03	\$0.04	\$0.08	\$0.16	\$0.24	\$0.26	\$0.18	\$0.06	\$0.03	\$0.02	<b>\$0.02</b>	<b>\$0.04</b>
<b>Shares</b>	733	733	741	746	752	753	878	947	948	949	<b>950</b>	<b>950</b>

Yamana'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 Yamana report lower book value each year and while 2018 is a year of transition, 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 2.1% higher annually going forward to \$5 in 2023. Indeed, Q3's results would support the earnings recovery thesis given stronger margins and production forecasts.

Yamana will achieve this mostly via higher production totals but also with some measure of margin expansion, as we saw again in Q3. The company's new Cerro Moro mine – which contains gold and silver – should see production ramp into the back half of the year, having begun production in late June. Yamana 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 has now been sold, providing the company with some much-needed cash it can use for general purposes, or to acquire interests in more productive mines. Looking forward, we should see production continue to move higher as a result of the Cerro Moro mine coming fully online after it began production in Q2, and Q3's results support this. This increase in volume should result in lower production costs and thus, better margins. Yamana is certainly not without its risks to earnings but 2018 looks like the bottom at this point, with Q3 results confirming this thesis and improving its outlook.

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 Yamana 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
<b>Avg. P/B</b>	0.87	1.24	1.31	1.47	1.66	0.91	0.53	0.36	0.59	0.69	<b>0.52</b>	<b>0.75</b>
<b>Avg. Yld.</b>	0.3%	0.4%	0.7%	1.1%	1.5%	2.2%	2.4%	2.0%	0.8%	0.7%	<b>0.9%</b>	<b>1.0%</b>

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Yamana'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. Price-to-book value has declined meaningfully in recent months to just 52%, and we therefore see a sizable tailwind from a return to a more normalized valuation at 75% of book. This should help shareholders achieve 7.6% in annual returns as the dividend continues to contribute around 1%.

## 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%	<b>20.0%</b>	<b>25.0%</b>
Debt/A	30%	32%	31%	30%	33%	37%	46%	49%	48%	49%	<b>49%</b>	<b>45%</b>
Int. Cov.	11.4	10.5	33.1	169.9	195.4	-16.3	-11.8	-19.2	-4.9	-2.3	<b>-1.5</b>	<b>1.0</b>
Payout	5%	14%	11%	18%	32%	77%	--	--	65%	32%	<b>29%</b>	<b>24%</b>
Std. Dev.	84%	50%	26%	36%	35%	34%	48%	68%	87%	41%	<b>45%</b>	<b>51%</b>

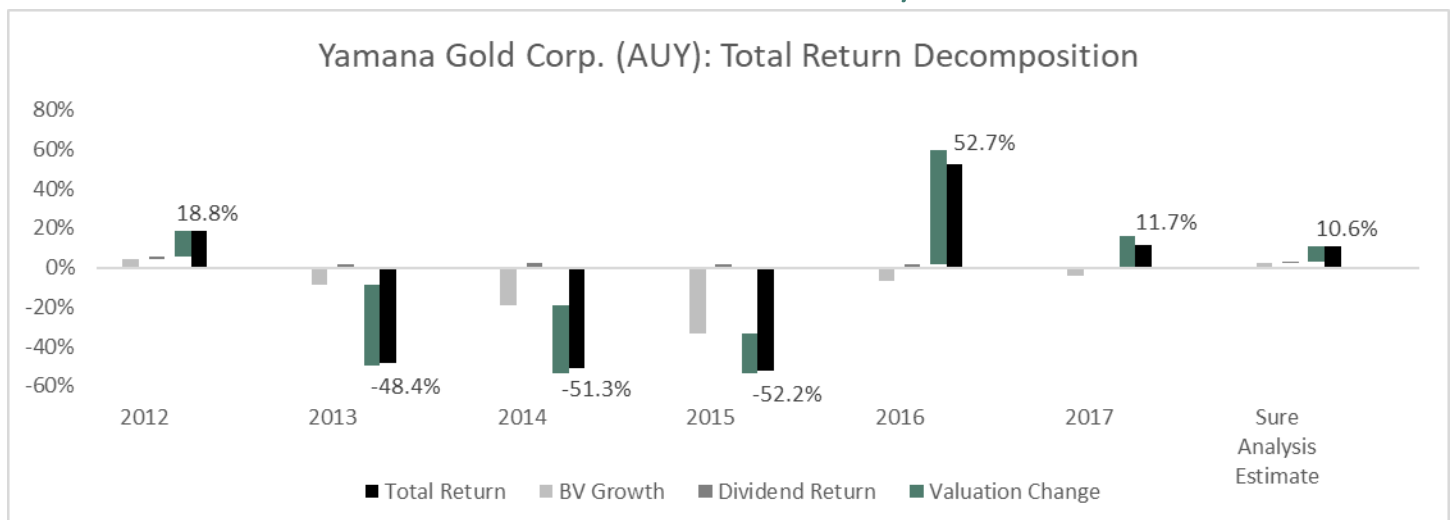
Yamana's margins have risen and fallen with production and spot metal prices over the years but we see them moving higher, which will drive earnings growth, as it did in Q3. The company's debt is manageable at less than half of assets, but its interest coverage could use some work. We think rising earnings will help the company cover interest expense in the near future. The payout ratio will remain low despite the dividend moving higher, so Yamana is in decent shape.

Yamana does not have many competitive 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 Yamana'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 with the exception of the extent to which a downturn impacts metal prices.

## Final Thoughts & Recommendation

On the whole, Yamana looks like a decent growth stock that is undervalued at present, but it is certainly not without its risks. We are forecasting 10.6% annual returns going forward, consisting of the current 0.9% dividend yield, 2.1% book value growth and a 7.6% tailwind from a higher valuation. After the recent selloff, Yamana has moved into value territory. Expected growth is still somewhat low and subject to significant risks, but with the cheaper valuation, we've upgraded our recommendation to hold. Yamana has plenty of bright spots fundamentally and the stock is much cheaper than it has been, but it certainly is not without its risks.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue</b>	949	1183	1687	2173	2337	1843	1835	1721	1788	1804
<b>Gross Profit</b>	336	467	754	1457	1505	942	789	706	759	761
<b>Gross Margin</b>	35.3%	39.5%	44.7%	67.0%	64.4%	51.1%	43.0%	41.0%	42.4%	42.2%
<b>SG&amp;A Exp.</b>	58	101	109	121	146	135	122	110	100	114
<b>Operating Profit</b>	277	346	606	906	818	368	15	34	157	194
<b>Operating Margin</b>	29.2%	29.2%	35.9%	41.7%	35.0%	20.0%	0.8%	1.9%	8.8%	10.7%
<b>Net Profit</b>	435	193	466	548	442	-446	-1383	-2115	-308	-194
<b>Net Margin</b>	45.8%	16.3%	27.7%	25.2%	18.9%	-24.2%	-75.4%	-123%	-17.2%	-10.8%
<b>Free Cash Flow</b>	-168	53	201	404	-380	-307	-133	178	169	-160
<b>Income Tax</b>	26	137	128	270	373	85	359	-476	-325	-114

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Total Assets</b>	9337	9709	10319	10770	11800	11411	12484	9518	8802	8763
<b>Cash &amp; Equivalents</b>	170	170	330	550	350	220	191	120	97	149
<b>Accounts Receivable</b>	27	99	210	200	174	78	47	43	35	39
<b>Inventories</b>	124	102	116	163	230	229	300	270	254	164
<b>Goodwill &amp; Int. Ass.</b>	55	56	73	75	99	66	493	490	481	450
<b>Total Liabilities</b>	2780	3138	3233	3278	3938	4253	5751	4654	4222	4316
<b>Accounts Payable</b>	144	154	185	194	305	280	290	203	229	256
<b>Long-Term Debt</b>	556	529	487	432	766	1190	2025	1677	1574	1748
<b>Shareholder's Equity</b>	6510	6525	7039	7445	7815	7139	6714	4841	4512	4313
<b>D/E Ratio</b>	0.09	0.08	0.07	0.06	0.10	0.17	0.30	0.35	0.35	0.41

## Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Return on Assets</b>	4.5%	2.0%	4.7%	5.2%	3.9%	-3.8%	-11.6%	-19.2%	-3.4%	-2.2%
<b>Return on Equity</b>	7.0%	3.0%	6.9%	7.6%	5.8%	-6.0%	-20.0%	-36.6%	-6.6%	-4.4%
<b>ROIC</b>	6.4%	2.7%	6.4%	7.1%	5.3%	-5.3%	-16.2%	-27.6%	-4.9%	-3.1%
<b>Shares Out.</b>	733	733	741	746	752	753	878	947	948	949
<b>Revenue/Share</b>	1.35	1.61	2.28	2.91	3.12	2.45	2.23	1.84	1.89	1.90
<b>FCF/Share</b>	-0.24	0.07	0.27	0.54	-0.51	-0.41	-0.16	0.19	0.18	-0.17

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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