

Skittish investors abandon Iamgold

By Martin Mittelstaedt

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Earnings report dims gold producer's outlook, continuing the sector's trend of punishing companies that make missteps

Iamgold Corp. shares sagged nearly \$3 or more than 19 per cent in active trading, after the gold producer reported weaker-than-expected third-quarter earnings and announced a major reduction in its production outlook for next year.

The stock tumble follows the recent pattern in the gold-mining industry, where companies that disappoint investors have seen their stocks get crushed as skittish owners rush for the exits.

Operating profit in the quarter fell to 16 cents (U.S.) a share, down almost half from 30 cents earned in the same period a year ago. The consensus estimate among analysts had been 24 cents.

"Execution in the gold space is very important and when you mis-execute, investors shoot first and ask questions later," said **Pawel Rajszel**, an analyst at **Veritas Investment Research Corp.** who slapped a sell recommendation on Iamgold Wednesday.

Iamgold, which has mines in Suriname in South America and in West Africa, said gold output this year will be "at the lower end" of its guidance of 840,000 to 910,000 ounces; for next year the company is expecting between 875,000 to 950,000 ounces, a major reduction from previous forecasts that ranged up to 1.1 million ounces.

In a conference call, Iamgold president Steve Letwin attributed the poor results to output shortfalls and high costs at two mines where the company has an ownership interest, but doesn't operate the projects.

"So, I'm not happy about that. Not a lot right now we can do about it," Mr. Letwin said.

But analysts say the company appears to be also struggling at sites where it is the owner-operator. "They're blaming their joint-venture partner for the troubles, but when we look at the numbers ... we see operating issues at the mines that they operate as well, albeit not to the same extent," **Mr. Rajszel** said.

Another investor worry with Iamgold is that the company also owns a niobium mine in the Saguenay region of Quebec. Niobium is used as an alloy in specialty steels. The company is in the midst of a costly expansion; **Mr. Rajszel** said the \$1-billion estimated cost is a concern, particularly as most precious-metals investors prefer pure-play companies, rather than those that generate a significant portion of revenue from other materials.

"I don't think gold investors care or want that black hole," he said of the niobium operation.

Mr. Rajszel has a \$13 (Canadian) price target on the company, and recommended clients take profits. Earlier this year he placed a "buy" call when the stock was trading around \$10.

Among mid-sized gold producers, Iamgold has one of the better pipelines of new projects and expansions. On the conference call, Mr. Letwin played up that positive attribute, and said the company would "nearly double our current level of production" to reach 1.4 million to 1.6 million ounces within five years. He predicted that the gold price would remain strong and average \$1,700 (U.S.) an ounce next year.

Earlier this year, Iamgold bought promising junior Trelawney Mining for about \$600-million, a key part of its expansion strategy. Trelawney's prime asset is a gold discovery in Ontario, but Maison Placements Canada president John Ing contends Iamgold paid a "very rich price" for this property.

He said Iamgold paid cash for Trelawney, but then turned around and borrowed \$650-million through a bond issue, stretching its balance sheet.

Many investors want gold miners to show more discipline in their use of capital by minimizing amounts raised through bond issues or dilutive equity offerings. Mr. Ing said Iamgold management has "over-promised and undelivered," disappointing investors.