



Hooray! My Company Just Eviscerated Billions In Shareholder Capital!

Description

Shareholders of **Kinross (TSX:K,NYSE:KGC)** and **Barrick Gold (TSX:ABX,NYSE:ABX)** must have been absolutely thrilled to see this morning's headlines. "Kinross takes \$3.2-billion hit on Africa mines" blared one. "Barrick posts huge loss on \$4-billion copper charge" proclaimed another. Clearly, another ugly day for gold stocks was in store. A logical way to think about it, but never forget with whom you're dealing. Being rational is not really Mr. Market's thing.

At midday, Kinross shares were up a shade below 6% and Barrick up a bit less than 5%. Companies should write-off billions of dollars every day! There are a couple of factors at work here that are likely behind the positive moves for both stocks.

Big bath

The market is forward-looking. Kinross and Barrick shares are down about 20% and 30% respectively over the past year, largely because the market has expected these headlines. Today's share price action is an indication that the market now believes in the values attributed to the mining assets within each company's portfolio. A repeat of these headlines is not expected.

Valuation

[As mentioned in a post yesterday on Barrick](#), and illustrated in the table below, these companies trade at multiples well below historical levels.

	P/BV	10 Yr Avg	P/TBV	10 Yr Avg
Kinross	0.96	1.84	1.09	2.86
Barrick	1.55	2.51	2.70	3.50

Source: Capital IQ

Stocks priced for the worst can act like a coiled spring when the worst doesn't occur, or, begins to appear in the rear view mirror. Given the massive write-downs, neither company was able to escape the worst case scenario. However, with the worst potentially now behind them, for the sake of shareholders, hopefully this period will become an increasingly distant memory (nightmare?).

Words to live by

The opening remarks made by Barrick's CEO in its quarterly release nicely sum up what has gone on in the gold space and the path required to drive these multiples back to their historic means:

"Investors are rightfully demanding fundamental change in the gold industry, and Barrick is driving this new paradigm. Rising costs, poor capital allocation and the pursuit of production growth at any cost in the industry have led to declining equity valuations across the sector. The message is clear: the industry must chart a new path forward. Barrick highlighted the need for change last year, and we are increasingly taking strong action and re-focusing our business based on the principle that returns will drive production, production will not drive returns."

The CEO of South African gold miner Gold Fields presented a similar message back in the summer of 2012. This worthwhile presentation can be found by [following this link](#).

The Foolish Bottom Line

Truth be told, I'm a little disappointed in today's action out of the gold miners. I was very much hoping for the opportunity to buy Barrick Gold at book value. Now that book value has gone down and the stock price up, I may never get the chance. For the shareholders of both companies, if the words of Barrick's CEO are put into action, today might be the beginning of a tremendous rally and a return to glory for the senior gold producers.

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Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.

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- Investing

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1. NYSE:B (Barrick Mining)
2. NYSE:KGC (Kinross Gold Corporation)
3. TSX:ABX (Barrick Mining)
4. TSX:K (Kinross Gold Corporation)

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