Can Kinross Gold Recover From a Disastrous Third Quarter?

Description

Like its peers, Canada's third-largest gold miner, **Kinross Gold** (TSX:K, NYSE:KGC), has had a rough year. Year to date, its share price has plunged by more than 50% and not long ago it touched a new 52-week low.

Kinross' plunge is more than double the 26% year-to-date decline in the price of gold. Which raises the question: Has Kinross been treated too harshly by the market?

What is driving down precious metal prices?
The key driver of softer gold prices is fear that the U.S. Federal Reserve will start tapering its quantitative easing policy ("QE") before the end of 2013. The QE program, for anyone unfamiliar: The Fed maintains an artificially low interest rate environment in order to stimulate economic growth. It does this by shelling out around $85 million every month to purchase U.S. government bonds and mortgage-backed securities from commercial banks.

QE is generally perceived to support precious metal prices because of the systemic risks it poses to the economy — for instance, by distorting economic norms and asset prices. As a result, gold is thought to be a safe haven against systemic economic failure and a declining U.S. dollar.

But despite earlier fears that the Fed would start tapering QE during the third quarter, it now appears increasingly likely that the program will continue throughout 2014, primarily due to lackluster U.S. jobs data and an ongoing fear that any significant curtailment of the QE program will rattle markets.

The impact of softer gold prices on Kinross
Like its peers, Kinross reported disastrous third-quarter results. Despite a modest rise in production, revenue plunged 28% year over year to $876 million, while net earnings plummeted by a whopping 79% (to $46 million) for the same period.

Even more concerning, Kinross' all-in-sustaining-cost per ounce spiked 4% year over year to $1,069. That development leaves the company with the relatively thin margin of $183 per ounce, with gold prices currently at around $1,252 per ounce.

Now is not the time to panic

Investors could be forgiven for throwing the baby out with the bath water and fleeing Kinross. But now is not the time for investors to panic, because like its peer **Goldcorp**, Kinross has a solid balance sheet and asset base.

A debt-to-equity ratio of 0.3 and a current ratio of 3.4 attest to its low levels of leverage and high degree of liquidity. Kinross is also expecting to generate additional cost savings through the remainder of 2013 and 2014. Taking into account its plan to significantly reduce 2014 capital expenditures, its all-in-sustaining-cost per ounce should come down.

Kinross also has a solid asset base with more than 59 million ounces of proven and probable reserves, along with a diverse portfolio of projects under development. Commercial production at its Dvoinoye project began on Oct. 1 and will further boost production for the remainder of 2013 and into 2014. Kinross even revised its production guidance for 2013, increasing it by 8% to 2.6 million ounces.

Fed watchers are anticipating that QE will be in place into 2014, some analysts and market pundits believe that the price of gold will rise. Should that happen, it bodes well for Kinross to report improved financial results, when all of these other factors are considered.

Foolish final thoughts
It has been a tough year for investors in gold miners, but now is not the time to panic. That’s especially true for investors in miners like Kinross, which has a solid asset base and the ability to increase production and reduce costs.

CATEGORY

1. Investing

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1. NYSE:KGC (Kinross Gold Corporation)
2. TSX:K (Kinross Gold Corporation)

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