



3 Reasons Why Kinross Gold Corporation Could Double

Description

It's been a tough couple of years for **Kinross Gold Corporation** ([TSX: K](#))([NYSE: KGC](#)) investors.

The company had to deal with the decline in the price of gold, which fell from its record high of nearly \$1,900/oz. in 2011 to today's levels of \$1,266/oz. Like most of its peers, it also invested heavily when times were good, leading to massive write-offs during 2013. All together, Kinross wrote off more than \$3 billion of projects that were just no longer economically viable.

That's a bitter pill to swallow, to say the least.

Just as the price of gold bottomed and investors started to feel positive about the yellow metal again, the situation between Russia and the Ukraine started to escalate. Western governments responded by putting sanctions on senior Russian officials, and the Russian government responded in kind.

This affects Kinross perhaps the most out of any company in Canada since approximately a third of its production comes from two mines inside Russia. At this point, it's business as usual, but there's always the risk that Putin and his ministers will seize western-owned assets.

Because of the weak gold price and the company's exposure to Russia, shares have sunk to 10-year lows. However, it's not all bad news. Here are three reasons why this could be a terrific buying opportunity.

1. Overreacting to Russia

The market will always hate uncertainty, which gives bold investors an opportunity.

Over the weekend, there appeared to be a ceasefire agreement in place, although the latest reports do indicate there are still pockets of fighting. Most of the world wants the situation to come to a peaceful agreement, and it's likely to happen. At least, at some point. The only problem? Nobody knows when.

The company's mines are located in the eastern part of Russia, hundreds of miles away from the action, which means there's no danger in being caught up in the fighting. Additionally, they're

extremely low-cost operations, with a cost of approximately \$700/oz. They're nicely profitable, partially subsidizing more expensive operations in North America.

2. Decreasing costs

In their defense, management isn't taking this new reality of weak gold prices lying down. They've been aggressively cutting costs.

During the second quarter, the company's cost per ounce of gold mined was \$976 per share, compared to \$1,036 a year ago. It's also increased production compared to last year and decreased capital expenditures, both positive signs.

Because the company has been aggressive in cutting costs, it's been able to squeak out small operating profits. That makes Kinross a good place to be during this part of the gold cycle, at least compared to **Barrick Gold Corp.** ([TSX: ABX](#))(NYSE: ABX), which continues to be plagued with operational issues and losses.

3. Strong balance sheet

It could be years until the price of gold recovers to previous highs, which is why investors should pick an operator with a great balance sheet.

Kinross fits the bill. Not only does the company have more than \$700 million in cash, but it also has a debt-to-equity ratio of approximately 0.30, a pretty low number compared to its peers.

Not only is Kinross trading below its book value, but it's also sitting on approximately \$1.3 billion worth of inventory. If the price of gold goes up 15%, that's an additional \$200 million in book value just from the inventory rising in value. The large amount of gold on the balance sheet is a nice cushion, and could even be sold to help pay down the debt.

Kinross has its share of problems right now, but it could be a winner for patient investors. It has a strong balance sheet, reasonable costs, and the potential for a big spike if there's peace in the Ukraine. If you're a bull on gold, Kinross might be your best bet.

CATEGORY

1. Investing

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2. NYSE:KGC (Kinross Gold Corporation)
3. TSX:ABX (Barrick Mining)
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Author

nelsonpsmith

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