2 Reasons to Avoid Kinross Gold Corporation, and 1 Stock to Buy Instead

Description

Few stocks in Canada have performed as poorly as **Kinross Gold Corporation** (TSX: K)(NYSE: K) in recent times. In fact, over the past three years, Kinross shares have fallen by roughly 75%. That's even worse than **Barrick Gold Corp.** (TSX: ABX)(NYSE: ABX), whose shares are down only 64%.

So at this point, with the shares trading below $4, it may be tempting to buy the shares, hoping for a turnaround. After all, aren't you supposed to be greedy when others are fearful?

Well, not always. Below we show you two reasons why you should still avoid Kinross. Then we reveal one gold miner you should buy instead.

2 reasons to avoid Kinross

1. High cost

With gold prices having fallen so sharply, companies have been doing everything possible to cut costs. Kinross is no exception. But the company is still forecasting all-in sustaining costs of roughly $1000 per ounce of gold. This is higher than peers like Barrick, which just reported a number of $865 per ounce for the second quarter.

It also leaves margins very thin, with gold trading at just over $1,200 per ounce. In fact if gold prices were to stay flat, Kinross would earn roughly $500 million (pre-tax). And the company is valued at roughly $6 billion, including net debt. So the shares are by no means a bargain. And if gold prices drop any further, the company's profits will be seriously squeezed, and the shares will continue to fall.

2. Russia

Kinross also has a serious problem that its large rivals don't have to deal with: Russia. Last year, Russia accounted for just over 20% of metal sales, and is home to both the Kupol and Dvoinoye mines. So the company is clearly caught between a rock and a hard place. Thus far the company has sided with the Russians.

This puts the company at odds with Canada's government. Prime Minister Stephen Harper has been very supportive of Ukraine – perhaps even more supportive than President Obama. Remember, over 1 million people of Ukrainian heritage live in Canada. So the government could at any time impose stiffer measures on Russia. And Russia could retaliate against companies like Kinross.

1 stock to buy instead: Goldcorp

While many gold companies have acted irresponsibly, **Goldcorp Inc.** (TSX: G)(NYSE: GG) has emerged as a best-in-class player. It did not get carried away with big acquisitions, and has not suffered from massive failed projects.

As a result, the company has a much better balance sheet than companies like Kinross, with less than $1 billion in net debt. This makes the shares less risky, and also gives the company more flexibility. Notably, Goldcorp is actually growing production, while Kinross's production is flat and Barrick's is declining.

Better yet, Goldcorp has lower costs than Kinross, having just reported an all-in sustaining cash cost of $852 per ounce in the most recent quarter. And the company's operations are primarily in safe jurisdictions, all of which are in the Western Hemisphere.

So at this point, if you're looking to bet on the price of gold, Goldcorp is a much less risky way to do so.

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2. Metals and Mining Stocks

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