



Is Kinross Gold Corporation a Safe Investment?

Description

Kinross Gold Corporation ([TSX: K](#))([NYSE: KGC](#)) has been one of the worst performing gold miners over the past years, but with the stock now trading at about \$3.33, near a 10-year low, is now the time to buy in before the stock takes an upswing?

Operating costs

Kinross Gold's major struggle right now is that it is a relatively high-cost producer during a time while gold prices are low. Kinross is forecasting all-in sustaining costs will be \$950-\$1050 per ounce of gold produced this year, which is somewhat on par with **Goldcorp Inc.'s** ([TSX: G](#))([NYSE: GG](#)) \$950-\$1000. **Barrick Gold Corp.** ([TSX: ABX](#))([NYSE: ABX](#)) is forecasting costs of \$900-\$940. If the company can come in at the low end of that range it would be a positive, but the top end of the range is concerning, particularly given Kinross's past operating costs and the expense the company has undertaken to reduce operating costs.

In 2013 Kinross Gold's all-in sustaining costs were \$1,063 per ounce of gold. The company has been working hard to reduce costs since gold prices fell, and these reductions included the write-down about \$3 billion worth of projects that were deemed to be no-longer economically viable. The cost cutting measures were a necessity for Kinross Gold to survive lower gold prices, but my concern here is that Kinross Gold is a company in transition and until it can prove that it can successfully produce and grow while maintaining lower operating costs, there is a risk in investing in the company.

Overall finances

Some quantitative analysis shows that Kinross' shares are currently undervalued. For example the current book value per share is \$5.36, below the actual going rate of about \$3.30 per share. It is important to acknowledge that quantitative metrics only paint a part of the picture and I believe that investors have turned sour on Kinross due to its status as a high-cost producer during a time where gold prices are low. While the company is improving its operating costs, after years of high operating costs from a fundamental perspective, when gold costs could fall even lower there is reason to be more bearish on the stock than pure quantitative analysis would suggest.

Another major concern in the given climate is Kinross Gold's debt. The company's current debt-to-equity ratio is 4.26. Compare this to a known low-debt gold miner, Goldcorp, whose debt ratio is a much lower 1.40.

Geographic reach

Kinross's geographical reach is a bit of a negative right now. Given the recent geopolitical tensions, there has been an increased preference to invest in miners operating in "safe" regions. In the case of Kinross about one-third of its production comes from two mines in Russia, the Kupol and Dvoinoye. When Russia's expected involvement in Ukraine led the west to impose sanctions, there were concerns that Russia would retaliate against the west's sanctions and seize the country's mines. While things never escalated to that point, and the situation is somewhat stable right now, but part of the conflict still remains and tensions could resurrect at any given moment.

Should you buy?

While Kinross Gold may appear a bargain stock from some valuations, there are a fair bit of concerns to address. Before determining if the stock is a safe investment, I would like to see this year's actually reading on all-in sustaining costs to get a better idea on whether the company is really turning itself around.

It may seem a risk to wait for this key data piece, but given the company's low stock value, I don't think a good cost reading will be alone enough to turn the company's stock much higher. However, it would give much more clarity into the safety of an investment into Kinross Gold. Still, the company's debt burden and its focus on mining in Russia leads me to conclude that there are other gold miners out there, such as **Agnico Eagle Mines** ([TSX:AEM](#))([NYSE:AEM](#)) and Goldcorp that are much safer investments.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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2. NYSE:KGC (Kinross Gold Corporation)
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