



Kinross Gold Corporation: This Stock Could Be a Huge Winner

Description

What a difference a few years makes for the gold sector.

In 2011, it seems like the entire investing world caught gold fever. Big companies were spending billions acquiring mines previously thought to be uneconomical. Mergers and acquisitions within the sector were increasingly common. Many companies took the opportunity to load up on cheap debt, confident commodity prices would remain high.

We all know what happened next. Gold cratered, falling nearly 50% from its peak to where it trades at today. Many high cost projects were nixed, which led to huge write-offs. Shares of just about every gold company got crushed, falling anywhere from 50% to 90%. It has not been a good few years for the sector.

Kinross Gold Corporation ([TSX: K](#))([NYSE: KGC](#)) has been one of the hardest hit. The stock started off 2011 at nearly \$19 per share, falling all the way down to \$2.87, where it trades today. The company has dealt with a series of massive write-offs, weakness from its own ill-timed acquisition, and perhaps most importantly, investor perception that its mines in Russia are close to being seized by the Putin government as a retaliation for sanctions levied against high profile Russians in the wake of the Ukraine conflict.

Things certainly look bad for the beleaguered gold miner. Is Kinross a classic turnaround story? Or is the price giving investors a prudent warning? Let's take a closer look.

The financials

When investing in a turnaround, the balance sheet is extremely important. We don't know when the price of gold is going to recover, so Kinross must be sound financially to even consider it as an investment.

Overall, the company's balance sheet isn't in bad shape. It's sitting on \$836 million in cash, compared to \$2.1 billion in debt. The company also has a \$1.5 billion credit line it can draw in an emergency, as well as sitting on \$1.2 billion in inventory it could probably convert to cash relatively easily.

The company's earnings are a mess thanks to all the write-offs, but its cash flow is in surprisingly good shape for the state of the industry. The company is on pace for free cash flow to exceed \$300 million this year, which isn't too bad for a company with a market cap of \$3.3 billion.

Operations

The reason why Kinross is able to produce positive cash flow even when the price of gold is in the dumps is because it has some mines that are relatively low cost.

During its last quarter, Kinross reported that its average cost per ounce of gold mined was \$976, and projected a cost between \$950-\$1050 per ounce going forward. Thus, even at \$1100 gold it can be a profitable producer, and if gold ever makes it back up to \$1400 or \$1600 per ounce again, it can be a very profitable producer.

At the end of 2013, the company had reserves of 42.7 million ounces of gold and 44.7 million ounces of silver. Based on current production, there's enough supply there to keep workers busy for 15 years without the need for expansion or exploration. Less than 10% of the company's gold reserves are located within Russia, although more than 50% of its silver reserves are located at the Kupol mine in the country.

Upside potential

Like any gold company, Kinross is pretty much a levered play on the price of gold. Just how much potential upside does the stock have if gold rebounds to \$1400 per ounce?

The company produced nearly 700,000 ounces of gold equivalents during its last quarter, so let's assume it can produce 2.8 million ounces throughout the year. At a cost of \$1000 per ounce and a sales price of \$1400 per ounce, we're looking at a gross profit of \$1.1 billion. Even after expenses, Kinross's free cash flow could conservatively be \$500-600 million annually, which is between \$0.44 and \$0.52 per share. Those types of cash flow numbers would be extremely positive for the stock. Remember, shares currently trade for less than \$3 each.

If you believe the price of gold is going higher, Kinross is a great way to bet on it. And if you don't, then we've got a couple of other natural resource stocks for you to check out.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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