



Why Now Is the Time to Bet on Kinross Gold Corporation

Description

I have been bullish on [gold](#) and [silver](#) for some time, despite prices falling lower in recent weeks. I am not a gold bug who believes that the metal is the ultimate safe-haven investment protecting investors from the cataclysmic collapse of fiat currencies. But I do believe there is a place for gold in every investor's portfolio.

This, coupled with the beating that many gold mining stocks have taken, has created tremendous opportunities for value-oriented contrarian investors. One opportunity shaping up as a deep-value contrarian play is **Kinross Gold Corp.** ([TSX: K](#))([NYSE: KGC](#)), which has seen its share price plunge by 45% over the last year.

Let me explain why.

First, Kinross has gone from being a high-cost producer to one of the lowest-cost producers among the gold miners.

For the third quarter 2014, all-in sustaining costs dropped 14% year-over-year to \$919 per ounce, which is lower than **Goldcorp Inc.**'s (TSX: G)(NYSE: GG) \$1,066 per ounce for the same period. This significant drop in costs can be primarily attributed to reductions in sustaining capital as well as exploration and business development expenditures, coupled with an increase in gold ounces sold.

I also expect these lower costs to continue, with Kinross focused on reducing expenses and boosting production. As a result of the improvements already completed, Kinross has lowered the upper end of its full-year 2014 forecast for all-in sustaining costs by 5% to \$990 per ounce.

Secondly, Kinross has successfully made over its balance sheet.

At the end of the third quarter 2014, cash on hand was up a pleasing 14%, and long-term debt was down 3% year-over-year, giving Kinross a relatively low degree of leverage, with a debt-to-equity ratio of 0.3. This debt-to-equity ratio, while not as low as Goldcorp's 0.16, is significantly lower than **Barrick Gold Corp.**'s ([TSX: ABX](#))(NYSE: ABX) 0.8.

With cash on hand exceeding current financial liabilities, it is well-positioned to weather any further decline in the price of gold.

Thirdly, Kinross appears very attractively priced, with an enterprise value of a mere four times EBITDA and a book value per share of almost double its current share price.

This makes it appear far more attractively priced than Goldcorp, with an EV of five times its EBITDA and a book value per share 15% higher than its share price. Barrick appears even less attractive, with its EV of five times EBITDA and a book value per share of 7% less than its current share price.

Finally, while some analysts claim gold has further to fall, I believe the opposite.

A key driver of the recent plunge in gold prices is the resurgent U.S. dollar, on the back of a better-than-expected U.S. economic recovery. But while the U.S. economy may be strong, all is not well globally. China's industrial output continues to fall, while the Eurozone is set to fall into a triple-dip recession. With the U.S. more dependent than ever on exports as a means of driving economic growth, these events will slow U.S. economic growth, placing pressure on the U.S. dollar.

Growing global economic volatility and geopolitical uncertainty also underscore the value of a safe haven — and gold is viewed by many investors to be the ultimate safe haven.

As a result, I expect to see gold rally, potentially moving as high as \$1,400 per ounce, which given Kinross's low all-in sustaining costs and strong balance sheet, would have a significant positive impact on its bottom line.

The company gives investors leveraged exposure to the price of gold, and that should translate into a hefty jump in its share price as gold rallies. Kinross's potential has been recognised by a number of analysts who have upgraded its outlook to "sector outperform." For each of these reasons, Kinross offers investors significant potential upside on the back of a rebound in gold.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. NYSE:KGC (Kinross Gold Corporation)
3. TSX:ABX (Barrick Mining)
4. TSX:K (Kinross Gold Corporation)

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/09/09

Date Created

2014/11/17
Author
mattdsmith

default watermark

default watermark