



Is It Finally Time to Buy Kinross Gold Corporation and Yamana Gold Inc.?

Description

Once in a while, you can make a perfect prediction, but still not make any money. It doesn't happen often, but it can be very frustrating nonetheless.

Gold investors must be having that feeling now. After all, central banks have continued buying the metal, crises around the world are scaring investors, and the money-printing bug has spread to places like Japan, with the European Central Bank sure to follow.

But gold prices are still down over the last year. Making matters worse, if you bet on gold the wrong way, you've lost a lot more. For example, **Kinross Gold Corporation** ([TSX: K](#))([NYSE: KGC](#)) shares are down by 32%, and **Yamana Gold Inc.** ([TSX: YRI](#))([NYSE: AUU](#)) shares are down by over half.

That being said, gold prices spiked on Monday, and as a result the two companies' stocks are up by 8% and 10% respectively. Could this finally be the time to bet on them? Below we take a closer look.

Kinross: Nothing seems to be going right

Kinross is one of many gold companies that made all the wrong moves. Most notably, the US\$7.1 billion acquisition of Red Back Mining back in 2010 has been an absolute disaster. As a result, the company's balance sheet remains overstretched, and tumbling gold prices have put the company under very serious pressure. This is a familiar story.

As a bonus, Kinross has had to deal with an additional headwind: Russia. The country accounts for about 30% of the company's production, and sanctions against the country could pose a serious problem. This is why the company's shares have performed so much worse than the gold price.

But looking ahead, there are more promising signs. Its debt now seems to be under control, having ticked down in the last few quarters. The disastrous Fruta del Norte project is off its hands. The new management team seems much more disciplined than the last one. And for now, it's "situation normal" in Russia.

So Kinross is certainly a risky bet. But if gold prices finally respond to the fundamentals, then the stock

could be a big winner.

Yamana Gold Inc.: Some self-inflicted wounds

While companies like Kinross and **Barrick Gold** were the subject of scorn, Yamana was initially one of the good actors. That certainly ended this year.

The problems have mainly occurred in Brazil, where mines are old, deteriorating, and face big abandonment costs. Yamana has been trying to sell many of these assets, but of course buyers aren't interested. This year in particular has seen some big operational problems at these mines too. And investors aren't impressed.

So at this point, Yamana would benefit twice from increasing gold prices. First, the company would make a lot more cash flow. Secondly, these mines would be easy to get rid of.

This fact isn't lost on the market. Yamana shares often react more than their peers (both on the good days and bad days) to changes in the gold price.

So like Kinross, Yamana shares are a very levered bet on the gold price. If you really believe in the shiny metal, and think it will finally react to all the world's chaos, you should buy these companies. Otherwise, their shares are far too risky.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. NYSE:KGC (Kinross Gold Corporation)
3. TSX:K (Kinross Gold Corporation)
4. TSX:YRI (Yamana Gold)

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