



Yamana Gold Inc. vs. Kinross Gold Corporation: Which Is the Best Contrarian Bet?

Description

Yamana Gold Inc. ([TSX: YRI](#))([NYSE: AUU](#)) and **Kinross Gold Corporation** ([TSX: K](#))([NYSE: KGC](#)) have been nightmare investments over the past few years. Current shareholders are wondering if they should just bite the bullet and take a tax loss to offset gains in stronger parts of the portfolio. At the same time, new investors want to know if the bottom is in for these beaten-up miners.

Let's take a look at both companies to see if one is a better contrarian pick right now.

Yamana Gold

Yamana operates mines in Canada, Brazil, Argentina, Chile, and Mexico. Investors have watched the stock drop more than 70% in the past two years as weak gold prices and operational problems have hurt revenues and margins.

Despite the difficult conditions, Yamana is making some progress. Production hit a record 391,000 gold equivalent ounces in the third quarter of 2014, a 27% increase over the same period in 2013. All-in sustaining cash costs were \$807 per gold equivalent ounce in the third quarter, a 7% improvement over Q3 last year.

Yamana also made an important acquisition recently that should bode well in the long term. Canadian Malartic is the flagship mine acquired through the \$3.54 purchase of Osisko Mining. The world-class asset is jointly owned with **Agnico Eagle Mines Ltd.** ([TSX: AEM](#))([NYSE: AEM](#)), and should generate significant cash flow as the property is developed. Production at the mine for the third quarter was almost 130,000 ounces at a cash cost of \$735 per ounce.

The joint-venture structure will help Yamana spread out the operating risks of the mine and free up cash for developing other properties.

Kinross Gold

Kinross is slowly battling its way back after the massive write-downs it took on the assets that came

with the \$7.1 billion takeover of Red Back mining in 2010.

Red Back's Tasiast property in Mauritania was expected to be the star asset in Kinross' portfolio of global mines. The company has taken charges representing about 80% of the Red Back deal and Tasiast still isn't living up to its expectations.

Recently, shareholders have been getting some good news. The stock is up about 50% since the beginning of November and the third quarter results were encouraging.

Kinross reported Q3 2014 adjusted earnings of \$70 million, a 29% increase over Q3 2013. The results are impressive considering the average realized gold price dropped nearly 5% to \$1,268 per ounce.

The company is doing a good job of improving operating efficiencies at its mines. All-in sustaining costs dropped 15% to \$919 per ounce and Kinross lowered its guidance for year-end capital expenditures.

One important item is the strengthening balance sheet. For the first nine months of 2014, Kinross added \$100 million in cash and finished the third quarter with cash and cash equivalents of \$835.9 million.

Which should you buy?

If gold prices drift higher through 2015, both Kinross and Yamana will reward investors. Yamana has a lower production cost per ounce, but I think Kinross has made better progress in cleaning up the balance sheet and improving operations across the portfolio.

If contrarian opportunities appeal to you, the following free report is worth reading about two other Canadian stocks that could surge in 2015.

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3. NYSE:KGC (Kinross Gold Corporation)
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