

If You Don't Buy Kinross Gold Corporation Now, You'll Kick Yourself Later

Description

Over the next couple of years, you could make triple-digit gains in one of the most beaten-down industries on Earth: gold miners.

No, it won't happen overnight. But as I'm about to show you, a bull market in the resource sector is almost inevitable. And before the run is over, we could see prices double or more.

"Terrible-to-less-terrible" is a phrase I coined to describe buying assets that have suffered through tough times, digested the bad news, and are poised to run higher.

After an asset suffers through a hard time, no one wants to buy it. You won't see it on magazine covers. You'll never hear it discussed at cocktail parties.

It's around this time – when most people can't stomach the thought of buying – that a stock will trade well below its intrinsic value. In this kind of "terrible" condition, you can often buy assets for a few times earnings or a fraction of book value. In other words, well below "historical" levels.

If you buy at this moment, you can double your money if any optimism returns to the market. Keep in mind, it doesn't take great news to double the price of a cheap, hated asset. Conditions just need to change from "terrible-to-less-terrible."

That's the case right now at **Kinross Gold Corporation** ([TSX: K](#))([NYSE: KGC](#)). The firm been hard hit by sagging metal prices. Since May, 2013, the stock is off nearly 50%. We call that splitting two for one the hard way.

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Source: *Yahoo! Finance*

There's no way to sugar coat this; it's bad at Kinross. The company has dealt with a series of ill-timed acquisitions and massive write-downs. More importantly, investors are worried that the firm's two Russian gold mines could be nationalized.

Here's the thing: the stock is priced as if this worst-case scenario has already played out. At these prices, the market is awarding virtually no value to Kinross's Russian properties. However, if these assets aren't seized as feared, this company could be worth substantially more.

If this is the case, the stock's current valuation starts to look ridiculous when compared to peers. Today, the entire Kinross corporation (including equity and debt minus cash) is worth \$5.3 billion. By comparison, **Goldcorp Inc**, which produces roughly the same amount of gold as Kinross, is worth more than \$21 billion. **Eldorado Gold Corp**, whose production totals less than a third of Kinross, is worth \$5.7 billion.

This might be understandable if Kinross's balance sheet was in bad shape. However, the company has a modest debt load and big cash reserves. Yes, the gold miner's income statement is a mess after a slew of write-offs. However, Kinross is still generating ample cash flow, even at current metal prices.

The bottom line, it might be hard to think about buying Kinross here. But remember, things don't need to go from terrible to perfect for investors to make money. They just need to go from terrible to less terrible.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. NYSE:KGC (Kinross Gold Corporation)
2. TSX:K (Kinross Gold Corporation)

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