



Kinross Gold Corp. Downgraded: Should Investors Sell?

Description

The world's fifth largest gold producer, **Kinross Gold Corp.** ([TSX:K](#))([NYSE:KGC](#)), has been struggling for some time with a range of operational issues.

Recently, global investment bank **Goldman Sachs** downgraded Kinross from “neutral” to “sell”, despite the recent rebound in gold prices. This leaves the key question for investors, should they exit Kinross and go looking for better opportunities elsewhere?

So what?

Kinross has been burdened for some time with a range of operational issues that saw it fall into disfavor with investors. But after seeing its share price plunge 27% over the last year, it is trading with some attractive valuation metrics. This includes an enterprise value of a mere five times its 2015 EBITDA.

It has also been able to significantly reduce operating costs, which were an ongoing concern for investors. For the third quarter 2014, all-in sustaining costs (AISCs) were US\$919 per ounce of gold or 15% lower compared to the same period in 2013. Kinross is well positioned to benefit from the recent rebound in gold, and is trading at its highest point since late August 2014. Such low AISCs also allow it to remain profitable should the price of gold soften throughout 2015, which many analysts are now predicting.

There are also concerns about how the escalating conflict in the Ukraine and more heavy-handed sanctions against Russia will impact its Russian operations, which are responsible for 26% of its total gold production.

Many analysts are expecting a stronger U.S. economy, higher U.S. interest rates, and a resurgent U.S. dollar to drive gold prices lower over between now and 2017. It is also expected that economic activity in Eurozone will pick up over the next three years as the ECB fires up the printing presses and sets out to implement a quantitative easing style stimulus package to lift the region out of its economic doldrums.

Both of these factors will slow the flight to safety among investors who have been spooked by the sharp economic decline in the Eurozone and China, which drove higher investment demand for gold.

Goldman Sachs forecasts that gold will average US\$1,262 per ounce in 2015, but then as the U.S. economy continues to grow stronger and the ECB stimulus package gains traction in the Eurozone, the price will fall. For 2016 the investment bank has forecast gold will fall to US\$1,089 per ounce and then US\$1,050 in 2017.

Such low prices will obviously have an impact on the financial performance of gold miners, creating a relatively bleak outlook for gold miners.

Now what?

Clearly, it is the increasingly pessimistic outlook for the price of gold that has caused Kinross to be downgraded. That being said, the company still offers investors value because of its low costs that allow it to generate solid margins for every ounce of gold it produces, even at depressed gold prices.

However, lower gold prices will certainly take the shine off Kinross' appeal and negatively impact financial performance and share prices across the gold mining industry. This makes other sectors of the economy that are set to benefit from stronger economic growth such as telecommunications and electric utilities far more appealing.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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2. TSX:K (Kinross Gold Corporation)

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