Is Now the Time to Invest in Kinross Gold Corporation?

Description

It's safe to say that the past five years have not been fun for shareholders of **Kinross Gold Corporation** (TSX:K)(NYSE:KGC). Over this time, the company's shares have declined by more than 75%. The main culprit — besides the decline in gold prices — has been the Tasiast mine in Mauritania, which was the key asset in Kinross's US$7.1 billion acquisition of Red Back Mining in 2010. Thus far, Kinross has written off roughly US$6 billion of Tasiast's value.

And on Wednesday, we got another reminder of just how disastrous Tasiast has been. While reporting Q4 2014 earnings, Kinross announced it would defer a 38,000 tonne per day mill expansion at Tasiast, citing lower gold prices as the reason. As CEO Paul Rollinson put it, "It's like building a bridge across the river, and on the other side of the river is a big pile of gold. Once you start building that bridge, you want to know you're going to get to the other side."

The deferral is a nice sign of prudence for a company that has made some big mistakes, and allows Kinross to conserve its US$1 billion in cash. So is this the first step in a turnaround? And with the shares trading so cheaply, is now the time to step in? Below we take a look.

While no one's looking, results have been strong

The news about Tasiast is dominating the headlines. But underneath the surface, Kinross has been performing very well. Gold production reached a record 2.71 million ounces last year, and the company has exceeded expectations for 10 straight quarters. Cost numbers have also come in strong — last year, all-in sustaining costs totaled just US$973 per ounce.

For the first time in a while, the company is starting to look like an attractive investment. But there are still some big risks.

Don't jump in too fast

The biggest risk is a potential decline in the gold price. To put this in proper perspective, Kinross is forecasting all-in costs of US$1,000 to US$1,100 per ounce next year. So if the price of gold falls by just 10%, that will wipe out about 70% of the company's profitability.

Secondly, nearly 30% of production comes from the Kupol mine, which is located in Russia. Thus far, this Russian exposure has actually been a benefit, because the ruble's decline results in lower input costs. But tensions between Russia and the West have been escalating, and easily could result in greater sanctions. Kinross doesn't want to be caught in the middle, but may find this unavoidable.

So how cheap are the shares?

Let’s look at some basic math. Kinross hopes to produce about 2.5 million of ounces next year, at a cost of about US$1,050 per ounce. At a gold price of US$1,230, that equals US$450 million of pre-tax profit.

And when including debt, Kinross is valued by the market at approximately US$4.5 billion. For a mining company with declining production and big geopolitical risk, I would argue this is no bargain.

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