Should You Buy or Sell Kinross Gold Corporation?

Description

Kinross Gold Corporation (TSX:K)(NYSE:KGC) is cheaply valued to many of its gold mining peers, but is there a reason for this? Is the stock a buy or sell?

What do the earnings tell us?

Kinross Gold's stock has tumbled since Q4 results were released in early February. The results were mixed. Kinross Gold posted an adjusted loss of US$0.01 per share, whereas the consensus analyst estimate, according to **Thomson Reuters**, was for EPS of US$0.01. Revenue was US$791.3 million, a decline year-over-year, but above the analyst consensus estimate for US$778.7 million.

The recent earnings have been mixed, and given the climate gold miners are faced with, this is expected. In order to make a decision about whether the stock is a buy or sell, we will need to look further, and there is one key piece of information contained in the earnings that is a major negative of Kinross Gold, and that is impairment charges.

Impairment charges

Kinross Gold's Q4 results included an after-tax, non-cash impairment charge of US$932.2 million and an inventory write-down of US$167.6 million. Impairment charges can be somewhat expected for gold miners right now, but Kinross Gold's recent track record of taking hefty impairment charges is disconcerting. A string of impairment charges is something investors should be aware of, as it says something about the management's style of pursuing projects that may end up being more costly than beneficial.

As another example, in 2008 Kinross Gold purchased Aurelian Resources and its Fruta del Norte project for US$1.2 billion. Legal disputes halted development of the project, and Kinross Gold suffered a US$720 million impairment charge in 2013, and ended up selling the project at a hefty discount.

Costs

Another negative (sell) signal for Kinross Gold is its operating costs. Last year, Kinross Gold had great cost discipline and managed to reduce its all-in sustaining costs (AISC) by 10%, but looking to 2015, the cost structure does not look as good. The company is forecasting AISC of US$1,000 to US$1,100/oz, higher than 2014 results because of lower gold production and increasing capital costs. This is worrisome when you consider that most of Kinross Gold's peers are expecting costs to decline in 2015.

Expansion potential

Kinross Gold recently announced that it was suspending its US$1.6 billion Tasiast project, citing low gold prices. Considering the company has fairly good liquidity, this opens up the question of whether the company will look at expanding through another acquisition. Given the company's recent track record of acquisitions and write-downs, investors should watch this closely.

Should you buy?

The picture for Kinross Gold looks mixed. On one hand, liquidity is great. It opens up the possibility for acquisitions in the current, competitive gold market. On the other hand, the company is seeing AISC increase at a time where the gold price remains weak and its peers are seeing costs go down. When making a decision on Kinross Gold, I see the price of gold as paramount. Once we have a consistent improvement in the price of gold, the company could make a good investment, but as gold stays weak, I would stay away.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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