Should Kinross Gold Corporation Be Your Top Gold Pick?

Description

Kinross Gold Corporation (TSX:K)(NYSE:KGC) has struggled mightily in the past five years and many investors won't go anywhere near the stock, but recent developments suggest it might be time to start kicking the tires.

Let's take a look at Kinross to see if it deserves a spot in your precious metals portfolio.

Background

Shares of Kinross are down more than 80% in the past five years. It's as ugly a chart as you're likely to come across and a large part of the slide is connected to the company's disastrous US$7.1 billion purchase of Red Back Mining Inc. in 2010.

The deal gave Kinross ownership of the Tasiast asset in Mauritania, which was highly touted as a game changer. It certainly had an effect, but the opposite one expected by the company's management team.

Kinross has written off most of the value of the Tasiast acquisition, and while it continues to hold the mine, the company says it is still struggling with the cost structure at the project and is not planning to expand until it can get better returns.

Are there better times ahead?

Earnings

Kinross recently settled a couple of class-action lawsuits tied to Tasiast. With the legal distractions behind it, the company is getting back to the business of improving efficiency in its operations.

In fact, the latest quarterly earnings suggest management is getting on track.

Kinross reported adjusted Q1 2015 earnings of US$15.3 million, or US$0.01 per share. That doesn't sound very exciting, but it was one of the few results in the gold sector that actually beat estimates.

The company confirmed its 2015 production guidance of 2.4-2.6 million gold equivalent ounces, and projected all-in sustaining costs of US$1,000-1,100 per ounce. Total capital expenditures for the year should be about US$725 million.

First-quarter operating cash flow was US$250 million and the company spent about US$150 million on capital projects.

Strong balance sheet

Kinross finished Q1 with just over US$1 billion in cash and cash equivalents, up significantly from the year-ago level of US$700 million. The company also has a US$1.5 billion revolving credit facility, of which, only US$31 million has been drawn. Long-term debt is about US$2 billion, slightly lower than it was at the end of Q1 2014.

Should you buy?

Kinross has a stable balance sheet and is creating enough cash flow to cover its capital program. Right now, the stock is only trading at 0.6 times book value, which is much lower than the five-year average.

With gold stuck around $1,200 per ounce, the company is looking at tight margins given the outlook for its all-in sustaining costs. Production is forecast to be lower in 2015 than it was last year.

Nonetheless, Kinross offers a shot at some serious upside in the event of a bullion rally, and there is a chance that one of the big players will take it out given the high-cash position and cheap price.

This is a contrarian pick and any new position should be considered as a speculative one.

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1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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aswalker