Why Yamana Gold Inc. and Kinross Gold Corporation Could Soon Take Off

Description

Back in 2011, the price of gold reached an intraday peak of more than US$1,900 per ounce. At the time, investors were scared straight by the Euro crisis, and what it would do to the world economy.

Over the next three years, the situation in Europe calmed down, and the price of gold fell to roughly US$1,200. As a result, the profits — and share prices — of gold companies have been absolutely pummeled.

But in January, Greece voted the left leaning Syriza party to power. Syriza has since taken a hard line with creditors, which has once again renewed the possibility of a Greek default. On Sunday, this reached a climax, as talks between the Greeks and its creditors broke down. One official even said, "This is very disappointing and sad. It was a last attempt to bridge our differences but the gap is too large. One can discuss a gap, but this is an ocean."

The news could easily get worse. A Greek default would in all likelihood mean an exit from the European Union. This would thrust the continent into unknown territory. Other troubled countries like Spain and Italy could see an outflow of capital. The EU could suffer economically, which would have severe repercussions worldwide.

If this were to happen, it would pummel most stock prices. A notable exception would be the price of gold, which could surge. So what's the best way to make this bet? Below we take a look at two options.

Yamana

Yamana Gold Inc. (TSX:TRI)(NYSE:AUY) has seen its share of problems in recent years. The main issues have been in Brazil, where Yamana has some old, high-cost mines that it's trying to get rid of. And it doesn't help that Yamana's shareholders voted against the company's compensation plan (in a non-binding vote).

Yamana's main problem has been a decline in gold prices, which has knocked more than 75% of the company's share price in the last three years. The stock price now sits at roughly $4.

But through it all, Yamana has been growing. Its purchase of Osisko Mining last year helped gold production grow 33% this quarter. And costs have been declining.

So if gold recovers, then Yamana's increased production will really start to pay off. Its Brazilian mines will be easier to deal with. Investors will forget about the absurd CEO pay. And there would be nothing but upside for the shares.

Kinross

Kinross Gold Corporation (TSX:K)(NYSE:KGC) shares have been battered even more than Yamana's. Over the past five years, the company's stock price has fallen by more than 80%, and now sits at roughly $3. The main problem for Kinross has been its US$7.1 billion purchase of Red Back Mining in 2010, which has been a disaster.

But if gold prices recover, there's a lot of upside for Kinross. The company is a high-cost producer, with all-in costs expected to fall somewhere between US$1,000 and US$1,100 per ounce. So if the gold price moves from US$1,200 to US$1,300, then profits could go up by as much as 100%. Even a return to early 2013 prices could send Kinross shares skyrocketing.

Granted, this is all very speculative. But if you're looking to make a bet on gold prices, these two stocks have the potential for big returns.

CATEGORY

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TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. NYSE:KGC (Kinross Gold Corporation)
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Date
2025/09/09
Date Created
2015/06/15
Author
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