



Can Kinross Gold Corporation Capitalize on Barrick Gold Corp.'s Troubles?

Description

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:ABX) has seen better days. Analysts believe its credit rating could be at risk if gold prices remain near today's prices as its debt levels vastly exceed its cash flows. To fix this issue, Barrick Gold has turned to selling off some of its major assets.

For Barrick Gold, this marks a desperate move as many projects will need to be sold at fire-sale prices. For the buyers of those assets, however, the situation could pay off big time.

Barrick Gold has already stated that it has a few interested buyers in some of its U.S. assets, with a deal expected to be in place before the end of the year. One of the biggest prospective buyers is **Kinross Gold Corporation** ([TSX:K](#))(NYSE:KGC).

To avoid slipping into junk-credit territory, Barrick Gold may have to give Kinross Gold an attractive deal. Is Kinross Gold a potential buy for investors?

A double whammy

Like most gold miners, Kinross Gold shares are down big recently, experiencing a more than 40% decline in the past year alone. Along with falling gold prices, most of Kinross Gold's low-cost mines are in Russia. With all of the political turmoil going on in that region of the world, investors have decided to discount their valuation of those mines just as the company was hoping to trumpet those projects as successes.

Despite investor wariness, Kinross Gold has been able to lower its cost of production this year. Recently, management lowered its full-year all-in sustaining-cost guidance to \$975-1,025 per ounce from \$1,000-1,100 per ounce. No matter what investors are saying, the company is clearly benefiting from a weak Russian currency and low oil prices.

Higher production, lower spending

Not only have production costs fallen, but the company is also expected to produce more gold for less. This month, gold production guidance was upped to 2.5-2.6 million ounces from the previous guidance

of 2.4-2.6 million ounces. Plus, its capital-spending target was lowered from \$725 million to \$650 million.

With costs nearing \$1,000 an ounce, production rising, and capital spending lowered by about 10%, Kinross Gold will have a much easier time managing cash flows.

Solid financial footing to take advantage of struggling competitors

With its cash balance exceeding \$1 billion at the end of the second quarter and its operating cash flow outpacing its capital spending, Kinross Gold is in an extremely rare position as a gold miner in today's operating environment. This means that despite lower gold prices, cash burn won't be a problem. This should allow Kinross to pick up some key assets at decade-low prices.

Trades like its peers despite having better fundamentals

When gold has a down day, it seems as if shares in Kinross Gold are pressured just as much as its debt-ridden, higher-cost peers. This is directly contrary to the company's strong balance sheet and attractive cost of production.

While higher gold prices are definitely preferable, lower prices might actually allow Kinross Gold to acquire assets even more cheaply. When gold finally stabilizes and rebounds, Kinross Gold should come out of this bear market incredibly strong.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. NYSE:B (Barrick Mining)
2. NYSE:KGC (Kinross Gold Corporation)
3. TSX:ABX (Barrick Mining)
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Author

rvanzo

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