Is it Finally Time to Buy Kinross Gold Corporation?

Description

The past four years have been a nightmare for gold bugs, and shareholders of **Kinross Gold Corporation** (TSX:K)(NYSE:KGC) have suffered immensely.

After topping out above US$1,900 per ounce back in September 2011, gold has been on a nasty slide, and gold miners have tagged along for the ride.

Kinross traded for just under $20 at the beginning of October 2010. Today the stock is worth less than $2.50. That's a pretty scary track record, but the bottom might finally be in.

Here's why.

Solid balance sheet

The disaster at Kinross started in 2010 when the company paid US$7.1 billion to buy Red Back Mining Inc. in a deal that was supposed to be a game-changer for the company.

It certainly was, but in the wrong way. The assets have never lived up to their potential, and Kinross has taken massive write-downs on the properties.

The road to recovery has been a painful one, but management has done a good job.

Kinross ended Q2 2015 with more than US$1 billion in cash and cash equivalents, and roughly US$2 billion in long-term debt, with just US$250 million due before 2019.

The company also has about US$1.5 billion in available credit.

Operational improvements

Adjusted operating cash flow came in at US$161.4 million. The company spent $128.5 million on capital projects, so cash flow is adequately covering the expenditures needed to keep production on track.

All-in sustaining costs in the quarter were US$1,011 per ounce. That's higher than some of its peers, but the company is making progress on its efforts to lower expenses.

Growth opportunities

Kinross is sitting on a lot of cash, and there is no shortage of cheap assets available in the market. Investors might cringe at the idea of management taking another crack at the M&A game, but this time the deals would be done at what appears to be the bottom of the cycle.

Takeover target

Kinross itself could become a takeover target. The stock has a market cap of about US$2 billion. When you add in the net debt of US$1 billion, you get a minimum takeover price of just US$3 billion for a company that has a portfolio of attractive properties that could be worth significantly more if gold is headed higher.

Gold prices

Gold has been under pressure for a number of reasons. Global markets are less affected by geopolitical threats, and that has reduced gold's appeal as a place to hide when the world is facing a crisis. At the same time, the U.S. dollar has risen significantly in recent years, and that also puts pressure on the price of bullion.

The other concern has been an expected U.S. interest rate hike. Gold doesn't provide any return, so the higher interest rates go, the less appealing it becomes to hold the precious metal.

A weak U.S. jobs report just changed the game, and the markets are no longer convinced that the U.S. will boost rates in the next few months. That is lighting a fire under gold prices, and the trend could continue if weak employment numbers continue over the next couple of months.

Should you buy Kinross?

If you think gold has bottomed, Kinross is a strong bet, and the extent of the sell-off means there could be some serious upside.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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