Barrick Gold Corp. vs. Kinross Gold Corporation: Which Is the Better Bet on Bullion?

Description

Barrick Gold Corp. (TSX:ABX)(NYSE:ABX) and **Kinross Gold Corporation** (TSX:K)(NYSE:KGC) have fallen hard over the past five years on the back of bad acquisitions and falling gold prices.

To be sure, investors have good reason to avoid the names, but the companies are working hard to right the ship and gold is finally catching a bit of a tailwind.

In fact, this could be the start of an interesting opportunity, and the two beaten-up miners are attracting some contrarian interest as a result.

Let's take a look to see which one deserves to be in your portfolio.

Barrick

Barrick paid $7.3 billion in 2011 to buy copper producer Equinox Minerals. The deal hasn't worked out very well and Barrick has since taken large write-downs on the main asset, Zambia's Lumwana copper mine. At one point late last year the facility was at risk of being mothballed because the Zambian government wanted to hike royalty fees.

Lumwana is just one part of the mining giant's headaches. Weak gold prices and a massive debt load are also responsible for the stock's 80% plunge in the past five years.

Barrick finished 2014 with US$13 billion in debt. Management is working hard to get that down to $10 billion by the end of this year, and it looks like the target will be achieved.

Barrick is actually making good progress on a large overhaul of the entire business. Admin costs are being slashed, and all projects now have to meet a strict return benchmark.

The market is starting to believe in the new Barrick, and that provides an opportunity for contrarian investors.

Production for 2015 is expected to be 6.1-6.4 million ounces this year at all-in sustaining costs of $840-880 per ounce, which is one of the lowest cost structures in the industry.

Kinross

Like Barrick, Kinross made a disastrous acquisition that almost ruined the company. Back in 2010, Kinross paid US$7.1 billion to buy Red Back Mining to get its hands on the Tasiast gold mine in Mauritania. The project hasn't lived up to expectations, and most of the purchase cost has been written off.

Shares of Kinross are down 85% over the past five years, but have enjoyed a nice 35% jump in the past month.

Management has done a good job of keeping the company alive through the gold rout, and Kinross now has a reasonably strong balance sheet. The company finished Q2 2015 with US$1 billion cash and US$2 billion in long-term debt. Only US$250 million is due before 2019, so the company is looking good.

Production for 2015 is expected to be 2.5-2.6 million ounces. The company just lowered its capex guidance by $75 million and all-in sustaining costs for the year should be $975-1,025 per ounce.

Which should you buy?

Kinross is further along in its turnaround efforts, so it would probably be the safer bet at this point. The fact that it is sitting on so much cash could also make it a takeover target.

Having said that, Barrick has a lower cost structure and massive production volumes. If gold prices hold up and Barrick can get the debt load down to a reasonable level without punishing shareholders, it is probably a better long-term bet.

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aswalker