Kinross Gold Corporation Is Winning Big Off Barrick Gold Corp.'s Troubles

Description

Since the beginning of the year, **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) has announced asset sales worth $3.2 billion, outpacing its debt reduction target of $3 billion for the year. In total, these moves have reduced its debt by a whopping 24% in less than 12 months.

While this looks like a positive for Barrick, it wasn't a proactive choice. Over the past decade, the company loaded up its balance sheet by forcing overpriced acquisitions and incurring massive cost overruns at many of its mines. In August, Barrick had its credit rating downgraded by **Moody's Corporation**, meaning that a dramatic cut in debt was necessary for the company to continue having access to the credit markets.

Forced selling typically doesn't happen at the most opportunistic prices for sellers. Not only do they have little bargaining power, but the sales often occur at industry troughs when prices are lowest. This means that Barrick's troubles could be another company's gain. This time around, **Kinross Gold Corporation** (TSX:K)(NYSE:KGC) looks to be the winner.

A win-win

On November 12, Barrick agreed to sell various non-core assets in Nevada to Kinross for $610 million. The assets included its Bald Mountain mine and a 50% stake in its Round Mountain project. Kinross had previously owned the other 50% stake in Round Mountain, so this sale will give it full ownership and control.

It appears as if the sale could make both companies winners. Barrick was able to offload non-core projects at a fair price and retained its most profitable and longest-life mines. Kinross, meanwhile, was able to consolidate its portfolio and will be able to extract more value out of the projects than Barrick could.

Kinross solves its biggest headwind

Kinross had been expected to experience declining production over the next five years. It desperately needed to boost output, but there were few projects that were complementary to its existing pipeline. In this latest deal, it was able to secure production from geographies that it knows well and already operates in. The acquisition will add approximately 430,000 ounces of annual gold production over the first three years and will lower Kinross's cost profile.

Plus, Kinross could easily afford to take on these additional assets as it had over $1 billion in cash on hand and lower levels of debt than most of its peers. The deal will involve taking on zero additional debt, and because both mines are already producing free cash flow, Kinross should be able to increase its financial strength even more in coming years.

What's next for Kinross?

In one move, Kinross was able to put its excess capital to work and grow its production profile, all while maintaining its financial strength. Closing at $2.30 a share, the stock is down around 50% from its highs on the year. While investors won't experience any meaningful rebound until gold prices rise, Kinross looks like one of the better-balanced options in the mining space.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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