Is Kinross Gold Corporation Worth a Shot?

Description

Kinross Gold Corporation (TSX:K)(NYSE:KGC) may finally be turning the corner on its long road to recovery.

Tough years

The last four years have been a disaster for Kinross and its shareholders.

Gold topped out at US$1,900 per ounce back in September 2011, and not long after Kinross spent US$7.1 billion to buy the ill-fated assets of Red Back Mining Inc.

The Red Back deal saddled Kinross with a mountain of debt just as gold prices were hitting their peak. To make things worse, the assets have never panned out to be anywhere near as lucrative as expected, and Kinross has since written down most of the value of the Red Back properties.

And the stock?

Kinross traded for more than $20 per share in 2010. Two months ago it bottomed out below $2.

That’s a nasty haircut, and investors can be forgiven for wanting give the name a wide berth, but management has worked hard to rebuild the balance sheet, and the company might finally be looking at a better future.

Financial position

Kinross reported an adjusted net loss of US$23.9 million, or US$0.02 per share for the third quarter of 2015, down from adjusted net earnings of US$70.1 million in the same period last year.

Operating cash flow for Q3 came in at US$206.6 million and the company spent US$171.3 million on capital expenditures, so Kinross is bringing in sufficient funds to keep the mines producing.

The company had all-in sustaining costs of US$941 per ounce for the quarter, up from US$919 in the same period last year.

Production was 680,679 ounces, which is slightly lower than Q3 2014.

Kinross finished the third quarter with US$1.025 billion in cash and cash equivalents and available credit facilities of US$1.5 billion. Long-term debt stood at US$1.73 billion.

The year-over-year numbers aren't great, but the strength of the balance sheet and a new focus on growth merit a closer look.

Acquisition

The company's acquisition history isn't exactly one that inspires confidence, but the market will probably view a recent deal more positively.

Kinross just spent US$610 million of its cash pile to buy strategic assets from its beleaguered peer **Barrick Gold Corp.**

The Nevada-based mines and development properties add about 430,000 gold equivalent ounces in average annual production and should lower the company's overall cost structure while boosting cash flow. The deal only used up about 60% of the cash balance, so Kinross has ample funds for capital programs or another purchase.

Should you buy?

Kinross has come a long way, but the price of gold will ultimately determine its fate. If you are a long-term gold bug, it might be worth taking a small contrarian position in the stock. The name has been beaten down so badly that any surge in bullion prices will give the shares a strong boost.

And at some point, Kinross could also become a takeover target.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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