



Kinross Gold Corporation: Should You Buy This Stock?

Description

Kinross Gold Corporation ([TSX:K](#))([NYSE:KGC](#)) has endured a difficult five years, but the company might be on the mend.

Bad timing

Kinross traded for more than \$20 per share in 2010. Today the stock sells for less than \$3.

A combination of events caused the meltdown, including the ill-timed US\$7.1 billion acquisition of Red Back Mining Inc. and the subsequent plunge in gold from US\$1,900 per ounce to the current price below US\$1,100.

The Red Back deal was supposed to be a game changer, and it was, but not the way the company expected.

The purchase closed near the top of the market and the assets have not panned out to be as lucrative as the company originally thought. Most of the purchase price has since been written down.

Kinross has spent most of the past five years trying to repair the balance sheet, and to management's credit, that task has been accomplished.

Better days ahead?

Kinross had Q3 operating cash flow of US\$206.6 million and spent US\$171.3 million on capital projects, so the firm is bringing in enough money to cover the cost of keeping the mines going in a difficult market.

Production was slightly lower than the same period last year and Q3 all-in sustaining costs were US\$941 per ounce, up from US\$919 per ounce in the third quarter of 2014.

Those numbers are not exactly encouraging, but debt levels are down and the company is sitting on a strong cash position.

The company finished the quarter with US\$1.025 billion in cash and cash equivalents and US\$1.5 billion available in credit lines. Long-term debt is down to US\$1.73 billion.

Acquisition

Kinross just spent US\$610 million of that cash pile to buy strategic properties from another beaten-up miner, **Barrick Gold Corp.**

This time, Kinross is buying near the bottom of the market, and the new mines will add about 430,000 gold equivalent ounces in average annual production. The assets are expected to help lower the company's average production costs per ounce and will provide a nice boost to cash flow.

Kinross paid for the assets in cash, and the company still has ample funds available for another deal.

Should you buy Kinross?

Everything depends on the price of gold. If bullion is headed higher in 2016, Kinross will move higher with the sector, and the company might also find itself the target of a takeover bid if the industry starts to consolidate.

Having said that, the cost structure is still higher than some of the larger names in the space and organic production growth is stagnant. I would look at the bigger companies first.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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