



Which Is the Better Investment: Kinross Gold Corporation or Yamana Gold Inc.?

Description

Gold producers have had a very rough year and an even tougher past five years. In fact, the first half of 2011, when the price of gold was at US\$1,900 per ounce, seems almost like a daydream at this point, and everything since then has been a nightmare.

For companies such as **Kinross Gold Corporation** ([TSX:K](#))([NYSE:KGC](#)) and **Yamana Gold Inc.** ([TSX:YRI](#))([NYSE:AUY](#)), that nightmare continues to this day as both earnings and stock prices have dropped significantly. Whether this makes one or both of these stocks a great opportunity is a question we can answer by taking a look at both of them.

The case for Kinross

Kinross is the fifth-largest gold producer in the world with production guidance of over 2.5 million gold ounces slated for 2015. The company has mines across the Americas, Russia, and Africa.

In the most recent quarter Kinross produced approximately 680,000 ounces of gold, down from 693,000 produced for the same quarter last year. Revenue came in at \$809.4 million, a decrease of \$136.3 million over the same quarter last year.

Overall, Kinross reported a net earnings loss of \$52.7 million. The company reduced net debt to \$949.2 million and ended the quarter with \$1024.8 million in cash and cash equivalents. Kinross also has a \$1.5 billion credit line available.

Kinross has a number of growth prospects on the horizon, including the recent purchase from **Barrick Gold Corp.** of 100% of the Bald Mountain gold mine and 50% of the Round Mountain gold mine in Nevada. The mines are slated to add nearly 430,000 ounces to production forecasts over the next few years.

Kinross currently trades at \$2.60. Year-to-date the stock is down approximately 20%, and extending this period out to five years shows an 86% decrease over the current price. The company stopped paying dividends several years ago and currently has a market capitalization of \$3 billion.

The case for Yamana

Yamana is a gold producer with a number of mines in both North and South America. For 2015, the company is targeting to produce 1.3 million ounces of gold in addition to 9.6 million ounces of silver and 120 million pounds of copper.

In the most recent quarter, Yamana posted revenues of \$448.9 million for the sale of just over 317,000 ounces of gold, representing a decrease of over 9% over the prior year. The company posted an adjusted net loss of \$2.2 million in comparison to a loss of \$1.3 million for the same quarter last year.

Yamana is currently in the process of spinning off one of its subsidiary companies—Brio Gold Inc. The private placement, which will lower Yamana's stake to 19.9% of Brio, will result in Yamana walking away from the deal with \$208.5 million, which the company has said would be used for general corporate purposes.

Yamana currently trades at \$2.84. Year-to-date the stock is down by nearly 39%, and over the course of the past five years this number becomes a 77% drop from the current price. The company still pays out a dividend of \$0.02 per share quarterly for a yield of 2.74%.

The better investment opportunity

There are reasons to invest in either of these companies. Both are struggling in terms of the most recent quarterly reports, and both are attempting to better their positions by engaging in cost cutting and expansion projects. Unfortunately, however, they are both tied to the price of gold, which has dropped significantly in a relatively short time for these two businesses (and other gold producers) to adequately adjust their cost structures to the new reality.

That being said, my recommendation would be Yamana. The company is focused on maintaining operations, reducing costs, and the Brio deal, which has already drawn praise from analysts. Over the long term, prospects for the company look bright, and investors should be handsomely rewarded once the price of gold starts to appreciate again.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. NYSE:KGC (Kinross Gold Corporation)
3. TSX:K (Kinross Gold Corporation)
4. TSX:YRI (Yamana Gold)

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