

Could Kinross Gold Corporation Double in 2016?

Description

Kinross Gold Corporation ([TSX:K](#))([NYSE:KGC](#)) has been a dog for investors over the past five years, but management has cleaned up the balance sheet and the company is once again focused on growth.

Tough times

Kinross traded for almost \$20 per share five years ago. The move has pretty much been straight down since then, and the stock bottomed out below \$2 in September.

The crash in gold prices from US\$1,900 per ounce to the recent lows is partly responsible for the pain, but the company also made a massive acquisition just before the peak of the gold rally, and that deal almost killed the company.

Kinross paid US\$7.1 billion to acquire Red Back Mining in 2010. The deal included the highly coveted Tasiast mine in Mauritania, a project that not only hasn't lived up to expectations, but has been an outright disaster.

Plunging gold prices coupled with operating difficulties have forced Kinross to write down the majority of the Red Back acquisition, and Tasiast still isn't making money.

Better results on the horizon?

Kinross hasn't given up on the project and still believes it can make Tasiast profitable by boosting processing capacity at the mine from 8,000 tonnes per day to 38,000 through an expansion that would occur in two phases.

The first step would require an investment of US\$290 million and could boost processing capacity to 12,000 tonnes, which would increase gold production at the mine to 368,000 ounces per year, up from last year's output of 260,000 ounces.

The company expects all-in-sustaining costs (AISC) would be US\$725 per ounce in the first two years.

Balance sheet strength and stable cash flow

Kinross reported Q3 2015 operating cash flow of US\$206.6 million and spent US\$171.3 million on capital projects, so the funds from operations are covering the costs of keeping the mines running.

Production in the quarter was down slightly compared with Q3 2014 and AISC rose from US\$919 in Q3 2014 to US\$941. Those aren't great numbers when compared with some of the company's peers, so investors should be careful.

Kinross finished the third quarter with US\$1.025 billion in cash and cash equivalents and long-term

debt of US\$1.73 billion. The company also has US\$1.5 billion in available credit facilities.

New deals

With the balance sheet effectively repaired, Kinross is in acquisition mode again. The company just spent US\$610 million of its cash to buy some assets from **Barrick Gold Corp.**

The new mines will add 430,000 gold equivalent ounces of production and are expected to bring down the company's AISC.

Could Kinross rally?

Kinross is doing a good job of turning the company around. Costs are still high but the new acquisition and the planned expansion at Tasiast could bring AISC down significantly.

The stock is so beaten up that a rally in bullion prices would send the shares soaring. If gold moves higher through 2016 and the company reports better operating results along the way, investors might be in for some nice gains next year.

I think a double is probably a bit of a stretch, but it isn't out of reach, especially if the industry starts to consolidate. There is a chance that Kinross could become a takeover target.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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