Should You Buy Kinross Gold Corporation or Goldcorp Inc.?

Description

The rally in gold looks like it might have legs this time, and investors are beginning to kick the tires on some of the sector's walking wounded.

Let's take a look at **Kinross Gold Corporation** (TSX:K)(NYSE:KGC) and **Goldcorp Inc.** (TSX:G)(NYSE:GG) to see if one deserves to be in your portfolio.

Kinross

Kinross made a disastrous acquisition near the peak of the gold market, and that deal almost destroyed the company, but five years of turnaround efforts have finally put the miner on sound financial footing.

In 2010 Kinross paid US$7.1 billion for Red Back Mining. The purchase included the highly coveted Tasiast mine in Mauritania. Gold topped out shortly after the deal, and the long slide over the past five years forced Kinross to write down the majority of the Red Back assets.

Tasiast has been a frustrating project and it still isn't making money, but Kinross believes that will change. The company is considering a two-phase investment to boost capacity at the mine. If the numbers pan out as expected, the mine could see throughput rise from 8,000 tonnes per day (t/d) to 12,000 t/d in phase one, and then jump to 38,000 t/d in the second phase. These investments would bring operating costs down to a point where the mine would be profitable at current prices.

Cash flow in Q3 2015 was adequate to cover capital expenditures and long-term debt stood at just US$1.73 billion. The company also finished Q3 with US$1.025 billion in cash and cash equivalents and US$1.5 billion in available credit.

Kinross now has the balance sheet strength to make strategic investments in both its existing operations as well as new acquisitions.

The company recently paid $610 million in cash for assets in Nevada that should increase production by 430,000 ounces and reduce overall all-in sustaining costs (AISC). The deal leaves the company with substantial cash for further acquisitions or flexibility to go ahead with the Tasiast expansion.

This is important because Kinross still has a higher cost structure than some of its peers. Third-quarter 2015 AISC came in at US$941 per ounce.

The company produces about 2.5 million gold equivalent ounces per year.

Goldcorp

Goldcorp has also been under pressure, but the company’s fortunes could turn around significantly this year.

Goldcorp put two new mines into commercial production in 2015, and those facilities continue to ramp up to capacity. This is important for investors because it means the company could begin to kick off some serious free cash flow in the coming quarters.

Goldcorp’s AISC in Q3 2015 came in at US$848 per ounce, down from US$1,066 per ounce in the same period in 2014. As the new mines increase production, AISC should continue to drop. At the same time, capital costs are falling and prices are rising.

Goldcorp produced Q3 2015 free cash flow of US$243 million driven by record production. The Q4 numbers should also be reasonable, and if gold can hold its recent gains, the first half of 2016 looks very good.

Goldcorp produces about 3.5 million ounces per year.

Which should you buy?

Both stocks will rally on continued gold strength.

I would go with Goldcorp right now due to its lower cost structure, but Kinross might be worth a shot if you have a more contrarian streak. The company is on the road to recovery, and there is potential for a takeover premium if the market begins to consolidate.

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1. Investing
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