Kinross Gold Corporation: Could it Rise Another 100%?

Description

Kinross Gold Corporation (TSX:K)(NYSE:KGC) has more than doubled off its January lows, and investors are wondering if this is the start of a much bigger rally.

Let's take a look at the beleaguered miner to see if more gains could be on the way.

Years of pain

Long-term Kinross investors have endured some serious pain since the financial crisis.

The company spent US$7.1 billion to Buy Red Back Mining about a year before gold peaked near US$1,900 per ounce. The deal included the highly coveted Tasiast mine in Mauritania, but Tasiast has never lived up to expectations, and Kinross has since written down the majority of the Red Back assets.

As gold plummeted below $1,100, Kinross watched its shares plunge by 90% as it struggled to reduce debt and stay alive until better days returned.

It looks like that moment might have finally come.

Kinross finished 2015 with US$1.04 billion in cash and cash equivalents and long-term debt of US$1.7 billion, so the balance sheet is in much better shape than it has been for years.

The company just spent US$610 million of the cash balance to acquire new assets in Nevada that should help reduce all-in sustaining costs (AISC) and boost production by 430,000 ounces per year.

AISC for all of 2015 came in at US$975 per gold equivalent ounce on total production of 2.6 million ounces.

2016 guidance

Kinross expects production in 2016 to be 2.7-2.9 million ounces at AISC of US$890-990 per ounce. Production costs remain higher than those seen at a number of the company's peers, especially at the high end of the estimate, but Kinross is making good progress.

Kinross performed well in 2015, hitting production levels near the top of guidance while delivering costs at the lower end of expectations, so management has some momentum behind it as the company moves through 2016.

Tasiast news

Tasiast has not been profitable since the mine was acquired in the Red Back deal, but Kinross is finalizing a two-phased expansion plan that could finally see the company realize some strong returns on the asset.

Phase one would boost mill throughput from 8,000 tonnes per day (t/d) to 12,000 t/d, which would lower AISC to a point where the mine should be profitable in the current environment. Phase two would increase throughput significantly higher and further reduce AISC.

Should you buy Kinross?

The stock was so oversold that any positive movement in the price of gold will continue to drive the shares higher. Whether or not it will double again all depends on where gold is headed in the coming months.

On a longer-term perspective, the balance sheet is now in decent shape, so there is much less risk of the company going bust, and the US$190 per ounce surge in gold thus far in 2016 bodes well for cash flow and the company's ability to further reduce debt. Operating costs are still high compared to the larger players, but the stock has some big upside potential if gold can maintain or even extend the recent gains.

If you have a contrarian investing style and believe gold has bottomed, Kinross might be worth a shot.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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