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Kinross Gold Corporation: Should Gold Bugs Buy This Stock?

Description

Kinross Gold Corporation (TSX:K)(NYSE:KGC) has been on a roll in recent months, and investors with an eye on the gold sector are wondering if this should be one of their top picks.

Let's take a look at the current situation to see if Kinross deserves to be in your portfolio.

The Tasiast story

Bank in 2010 Kinross spend US $7.1 billion to buy Red Back Mining. The purchases is widely considered to be the biggest mining blunder in recent history, and the debt load taken on to pay for the ill-fated purchase almost buried the company.

What happened?

Gold was still on a meteoric rise in 2010, and Red Back owned the Tasiast project, a highly coveted property in Mauritania.

Kinross paid through the nose to acquire the assets, but Tasiast has never lived up to expectations and Kinross eventually wrote down the majority of the Red Back deal.

Gold peaked in September 2011, and the ride down since then has been a nasty one for Kinross and its investors. In fact, Kinross plunged from $20 per share in 2010 to $2 in January of this year.

Tasisast has never turned a profit, but Kinross just announced plans that should change the story.

The company is going to invest US$300 million to expand the operation, boosting throughput from 8,000 tonnes per day (t/d) to 12,000 t/d. This should increase production by nearly 90% by 2018 and drive down all-in sustaining costs (AISC) to US$760 per ounce, which would will finally make the mine profitable at the assumed gold price of US$1,200 per ounce.

Kinross is also considering a second expansion phase at Tasiast that would bump throughput up to 30,000 t/d. That would require an additional investment of US$620 million, but a decision isn't expected until sometime next year.

Numbers to watch

Kinross has done a good job of cleaning up its balance sheet.

The company finished 2015 with US$1 billion in cash and long-term debt of just US$1.7 billion. Management recently spent US$610 million of the cash pile to acquire new assets in Nevada, and that move should boost production by 430,000 ounces and reduce overall AISC. Part of the funds have been replaced with a recent equity issue that raised about US$290 million.

For 2015, AISC was US$975 per gold equivalent ounce on production of 2.6 million ounces.

In 2016, Kinross is looking for production of 2.7-2.9 million ounces at AISC of US$890-990 per ounce. The cost structure is pretty high when compared with some of the other miners, so Kinross still has some work to do to get the numbers down.

If things go well at Tasiast, AISC could improve significantly in the coming years.

Should you buy?

Kinross is making good progress on its turnaround efforts, and the recent surge in gold prices has helped drive the stock up more than 100% since January. The company hit the top end of production guidance in 2015, so there is some optimism that Kinross will continue to deliver strong results.

The stock is still risky, and bigger names have lower cost structures, but Kinross has a lot of upside potential on further strength in the price of gold, and the company could find itself the target of a takeover bid as the sector begins to consolidate.

If you think gold is headed higher, it might be worthwhile to consider a small position in the stock.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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aswalker