



Goldcorp Inc. or Kinross Gold Corporation: Which Is a Better Bet Right Now?

Description

The gold rally is starting to look like it might have some serious legs, and investors who missed the big run in the first quarter are wondering which miners could extend their recent gains.

Let's take a look at **Goldcorp Inc.** (TSX:G)(NYSE:GG) and **Kinross Gold Corporation** ([TSX:K](#))([NYSE:KGC](#)) to see if one is a better pick.

Goldcorp

Goldcorp used to be the go-to name in the mining space, but the company has stumbled in recent years and is actually underperforming several of its peers.

Management slashed the dividend twice in the past 12 months and has reduced the proven and probable reserves by 18%. The reset is based on an expected long-term gold price of US\$1,100 per ounce and more conservative assumptions on foreign exchange rates.

The production outlook is also a bit disappointing, and costs are running higher than those at other big names in the space.

Goldcorp produced 3.46 million ounces in 2015 at all-in sustaining costs (AISC) of US\$894 per ounce. Annual production for the next three years is only expected to be 2.8-3.1 million ounces at AISC between US\$850 and US\$925 per ounce.

To put this into perspective, **Barrick Gold** is targeting AISC of less than US\$700 per ounce by 2018.

On the positive side, Goldcorp is only carrying US\$2.5 billion of debt and generated US\$335 million in free cash flow last year despite weak gold prices.

Goldcorp currently has a market value of US\$13.4 billion.

Kinross

Kinross has also had a rough run, but the company might finally be turning the corner.

In 2010 Kinross dropped US\$7.1 billion to acquire Red Back Mining in what is widely viewed as the worst mining deal in recent history.

The company has since written down most of the assets, and the highly coveted Tasiast property that came with Red Back has never lived up to expectations.

That situation is about to change.

Kinross recently announced plans to invest US\$300 million to expand throughput at Tasiast by 50% to 12,000 tonnes per day (t/d). This should improve production by 90% and drive down AISC to US\$760 per ounce by 2018.

A second expansion would boost throughput to 30,000 t/d, but a decision on that won't be made until next year.

Kinross has cleaned up its balance sheet and currently holds long-term debt of US\$1.7 billion. The company finished 2015 with US\$1 billion in cash and just raised another US\$290 million through an equity issue. A recent purchase of new assets in Nevada for US\$610 million means the company is still sitting on a cash pile of about US\$680 million.

Production is expected to be 2.7-2.9 million ounces in 2016 at AISC of US\$890-990 per ounce.

Kinross has a market capitalization of US\$4.78 billion.

Which should you buy?

Both stocks will do well if gold continues to rally. At the moment, Kinross probably offers more upside potential, and the improvements at Tasiast in the coming years could really help lower the overall cost structure. Kinross might also find itself the target of a takeover attempt if the sector begins to consolidate on stronger gold prices.

Goldcorp carries less risk and has a lower cost structure, but Kinross looks more attractive over the next few years if you believe gold has bottomed.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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