



Yamana Gold Inc. or Kinross Gold Corporation: Which Is a Better Buy Right Now?

Description

The gold rally is beginning to look like it might have some legs, and investors are wondering which names in the sector offer the best upside potential.

Let's take a look at **Yamana Gold Inc.** ([TSX:YRI](#))([NYSE:AUY](#)) and **Kinross Gold Corporation** ([TSX:K](#))([NYSE:KGC](#)) to see if one deserves to be in your portfolio.

Yamana

Yamana was pretty much left for dead in January when the stock hit a low of \$2 per share. The subsequent rally in gold is bringing the name back to life, and the shares just hit a 12-month high of \$5.

The rebound is a welcome sign for long-term investors who have really taken a hit over the past four years. Back in late 2012, Yamana traded for \$20 per share.

The slide in gold prices is partly to blame for the brutal performance, but debt problems connected to expensive acquisitions also hammered the stock.

As a part of its restructuring process, Yamana has placed non-core assets into a new subsidiary called Brio Gold. Management originally planned to spin off Brio to generate funds to pay down the company's US\$1.7 billion in debt, but decided to put the brakes on a sale back in December.

That decision is starting to look like a wise one as gold has rallied as much as US\$200 per ounce in recent months, but the debt load remains in focus. Yamana plans to reduce debt by US\$300 million over the next two years through organic cash flow and the monetization of non-core assets.

Yamana reported 2015 production of 1.28 million ounces of gold at all-in sustaining costs of US\$842 per ounce for the full year and US\$753 per ounce for the fourth quarter. Those numbers are pretty good, and they show the company is making progress on its efforts to drive down operating expenses.

Gold production in 2016 is expected to be 1.23-1.31 million ounces. Yamana currently has a market capitalization of US\$4 billion.

Kinross

Kinross has a similar story. The stock traded as high as \$20 per share in late 2009 and bottomed out around \$2 in January. The shares currently trade above the \$5 mark.

Kinross has done a good job of cleaning up its balance sheet over the past five years. The company is currently sitting on US\$1.7 billion in debt, but it also has about US\$680 million in cash. The cash balance was much higher before the recent acquisition of new assets in Nevada.

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

Management just announced plans to invest \$300 million in an expansion project at the company's troubled Tasiast mine in Mauritania. The move will boost throughput by 50% to 12,000 tonnes per day (t/d) and increase production by 90% by 2018 with AISC expected to be US\$760 per ounce at full capacity.

Kinross currently has a market value of US\$5.3 billion.

Which should you buy?

Both stocks will continue to benefit from rising gold prices. At the moment, Kinross has a higher cost structure, but it is still probably a better bet given the stronger balance sheet and the much larger production outlook.

Down the road, the Tasiast mine could finally turn out to be a winner for Kinross, and that isn't fully priced into the stock at this point.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. NYSE:KGC (Kinross Gold Corporation)
3. TSX:K (Kinross Gold Corporation)
4. TSX:YRI (Yamana Gold)

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