Kinross Gold Corporation: How High Could This Stock Go?

Description

Kinross Gold Corporation (TSX:K)(NYSE:KGC) has more than tripled since January, and investors who missed the rally want to know how much upside potential lies in this stock.

Let's take a look at the current situation to see if the rally has legs.

Gold market

Gold has mounted a surprise recovery in 2016, and the strong move is picking up momentum.

What's going on?

At the beginning of the year, most pundits expected the U.S. Federal Reserve to hike interest rates four times in 2016. Higher interest rates are normally negative for gold because they increase the opportunity cost of holding the precious metal.

Rate increases in the U.S. also tend to push the U.S. dollar higher against a basket of other currencies, and that makes gold, which is priced in U.S. dollars, more expensive for foreign buyers.

Concerns about an economic downturn in China and weak U.S. data have forced the Fed to scale back the rate hike program. Now, most market watchers expect a maximum of two rate increases this year, and that has put pressure on the dollar. As a result, gold is catching a tailwind.

The U.S. is raising rates, but other developed economies are moving in the opposite direction, with some now in a negative-rate scenario. The knock against the yellow metal is the fact that is doesn't pay you anything to own it, but in a negative-rate environment, gold suddenly looks pretty good as investors prefer to put their savings in bullion and earn nothing, rather than paying the bank or government to hold their money.

The story at Kinross

Kinross made an ill-timed and very expensive acquisition in 2010 when it bought Red Back Mining for

US$7.1 billion. Gold peaked in 2011, and the company has since written down most of the Red Back assets.

The Tasiast mine in Mauritania was supposed to be the crown jewel of the Red Back properties, but the site has been a disappointment right from day one.

That is about to change.

Kinross recently announced plans to invest US$300 million in Tasiast to increase the mine's throughput by 50%. The expansion should boost production by 90% and reduce all-in sustaining costs to US$760 per ounce by 2018. At the current gold price, the margins look pretty good.

The company's debt level is now down to a reasonable level and Kinross is once again focused on growth. Newly acquired assets in Nevada should boost production and also help lower AISC in the next few years. Production for 2016 is expected to be 2.7-2.9 million ounces at AISC of US$890-990 per ounce.

How high could the stock go?

Kinross has risen from $2 per share in January to above $7 this week. That's a big run, but the stock traded for $20 per share in 2009, so the upside potential is significant if gold continues to move higher.

Management has done a good job of cleaning up the balance sheet, and production costs are moving in the right direction. If Tasiast finally lives up to its potential, the latest rally might be the beginning of a longer-term recovery.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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