Kinross Gold Corporation Q1 Earnings Disappoint: Time to Book Profits on the Stock?

Description

If investors in **Kinross Gold Corporation** (TSX:K)(NYSE:KGC) are wondering if the massive rally in the stock is overdone, they may have a point. The gold miner released its first-quarter earnings yesterday, and the report lacked any fresh catalyst that could justify another run up in the stock. While Kinross confirmed that it is proceeding with a key expansion project, the news isn't enough to remain bullish about Kinross. Here's why.

Q1 a dampener

Here's a quick snapshot of the key numbers from Kinross's first quarter (all year-over-year comparisons):

- Revenue: Flat at US$782.6 million
- Gold production: Up 9%
- All-in-sustaining costs (AISC): US$963 per ounce of gold compared to US$964 per ounce in Q1 2015
- Net losses: More than doubled to US$13.9 million

Kinross blamed low prices of gold for wider losses in Q1. It realized US$1,179 per ounce versus US$1,218 per ounce in the year-ago quarter. While that has been an industry-wide trend, with peers like **Yamana Gold Inc.** (TSX:YRI)(NYSE:AUY) and **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) also realizing 2-3% lower prizes for gold in their respective first quarters, Kinross is lagging behind in an area that matters most for gold miners right now: AISC.

So while Kinross reported flattish AISC in Q1, Barrick's Q1 AISC was down a whopping 24% year over year to US$706 per ounce of gold. If you think that's an unfair comparison given Barrick's size and greater economies of scale, consider that Yamana Gold also lowered its AISC by 10% to US$804 per ounce in Q1.

That tells us two important things about Kinross: its AISC is among the highest in the industry, and the company is failing to lower its costs, unlike its rivals. Also, while Barrick improved its full-year AISC guidance in Q1, Kinross re-iterated its outlook of US$890-990 per ounce. While hitting the lower end of the range would translate into 10% lower AISC compared with 2015, Kinross still needs to do a lot to catch up with Yamana and Barrick to break the US$800 per ounce mark.

Its Tasiast mine should help.

This news is gold, but old

Kinross upped its capital expenditures guidance in Q1 as it expects to spend US$160 million in expanding Tasiast to double production volumes and lower production cost of sales by nearly 50%. That could go a long way in lowering Kinross's AISC, given that Tasiast's production cost was around US$975 per ounce in the first quarter. Meanwhile, the company's acquisitions at Nevada should also drive costs lower as production ramps up.

The only catch, and a big one at that, is that the Tasiast expansion is old news as Kinross had already announced the program in March. The stock has gained a staggering 62% since then, despite gold gaining only about 4%. In other words, the optimism around Tasiast and the resultant potential lower AISC is well baked into Kinross's stock price.

The bottom line? Kinross's first-quarter report lacks fresh catalysts to suggest further upside in the stock going forward.

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nehams