Should Gold Bugs Buy Kinross Gold Corporation or Yamana Gold Inc. Today?

Description

Kinross Gold Corporation (TSX:K)(NYSE:KGC) and **Yamana Gold Inc.** (TSX:YRI)(NYSE:AUY) have posted big gains this year.

Let's take a look at the two miners to see if one is a better pick right now.

Kinross

Kinross is finally turning the corner after a disastrous plunge from $20 per share in early 2010 to just $2 per share in January this year.

Falling gold prices were partly responsible for the rout, but an expensive acquisition was the main culprit.

What happened?

Kinross loaded up its balance sheet with debt when it purchased Red Back Mining in 2010 for $7 billion. At the time gold was rising and the big miners were on a buying binge.

Unfortunately, the gold rally topped out a year later, and Kinross has since written off the majority of the Red Back deal.

Management has done a good job of lowering the debt level through the restructuring process, and Kinross is finally at a point where it can focus on growth again.

The company plans to spend US$300 million on an expansion at its Tasiast asset, which was supposed to be the crown jewel in the Red Back deal. To date, Tasiast hasn't lived up to expectations, but that could change in the next few years.

The new investment will double throughput and increase production by 90%. As a result, Kinross believes it can get all-in sustaining costs (AISC) at the site down to US$760 per ounce by 2018.

Total gold production should come in at 2.7-2.9 million ounces in 2016 at AISC of US$890-990 per ounce.

Kinross currently trades for $7.50 per share.

Yamana

Yamana has also struggled under the weight of heavy debt and falling gold prices.

Like Kinross, the stock fell to $2 per share in January this year. In 2012 investors were paying $20 for this name.

Yamana has focused on lowering its debt burden and plans to reduce its US$1.7 billion in obligations by US$300 million over the next two years using cash flow from operations and property sales.

Last year the company placed a number of non-core assets into a subsidiary called Brio Gold with the idea of putting a package together that could be sold to another mining company. In December management put the sale plans on hold, and that decision is starting to look like a wise one.

Operational improvements combined with the surge in the price of gold have driven up the value of the Brio Gold group, and that is giving the company much more flexibility in its plans to monetize the assets.

Yamana reported Q1 2016 net earnings of US$0.03 per share and even managed to squeeze out US$56 million in free cash flow.

Gold production was 308,000 ounces in Q1 at AISC of US$804 per ounce. Total gold output in 2016 is targeted at 1.23-1.31 million ounces.

Yamana currently trades at $7.60 per share.

Which should you buy?

Yamana looks like a better near-term bet based on the current cost structure. If you are a long-term investor, Kinross should eventually outperform once it finally gets Tasiast to deliver as expected.

CATEGORY

1. Investing
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1. NYSE:AUY (Yamana Gold)
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4. TSX:YRI (Yamana Gold)

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aswalker