Kinross Gold Corporation: Should You Buy the Pullback?

Description

Kinross Gold Corporation (TSX:K)(NYSE:KGC) is up more than 160% in 2016, but a recent pullback has investors wondering if this is the right time to buy the stock.

Let's take a look at the current situation to see if Kinross deserves to be in your portfolio.

Gold market

This year's surge in the price of gold caught most people off guard.

Coming into 2016, there was a widespread belief that rising interest rates in the United States would extend gold's multi-year slide. In fact, pundits initially expected the U.S. Fed to hike the target rate four times during the year. As a result, gold below US$1,000 per ounce was starting to look possible.

Higher rates in the U.S. tend to boost demand for the American dollar, which pushes up its value against a basket of international currencies. Gold is priced in U.S. dollars, so a strong greenback makes the metal more expensive for foreign buyers, and that can hurt demand.

As the year began to unfold, the market quickly realized the Fed might not be as aggressive as predicted. Fears about a debt bubble in China started to dampen growth expectations, and soft data out of the U.S. put the Fed on its heels. As a result, the dollar pulled back and gold took off.

Now, pundits are calling for just one hike this year.

What about the Brexit?

The Brexit served up the second big surprise of 2016 and gave gold another shot in the arm, but the rally has quickly faded and the market appears to be embracing risk again. This also has market watchers confused, but the market is rarely logical.

For the moment, it looks like gold is taking a breather, but some longer-term issues could signal more support.

The Chinese debt bubble hasn't disappeared, and that should start to come back into focus in the coming months. Another item to watch is the global trend toward negative rates.

Japan and several European countries are now in negative-rate territory. This means you essentially have to pay the government to hold your money. The beef against gold has always been the fact that it doesn't offer any return, but no return is starting to look pretty good in the face of negative interest rates.

Where gold goes from here is anyone's guess, but the big picture suggests there could be more upside in the medium term.

Should you buy Kinross?

Kinross has been a disaster for long-term holders of the stock. The company made a $7 billion bet back in 2010 just before gold peaked and has spent most of the past five years writing down the value of the assets and trying to stay alive.

Management finally has the balance sheet under control and a new investment in the company's Tasiast mine could drive down all-in sustaining costs (AISC) in the coming years.

Total gold production for 2016 should come in at 2.7-2.9 million ounces at AISC of US$890-990 per ounce. Kinross believes it could get AISC down to US$760 per ounce at Tasiast by 2018.

If the company is successful in reducing its cost structure and gold holds its current price or moves higher, Kinross could be looking at some decent margins in the medium term.

At this point, you have to believe gold is destined to push higher to buy this stock. If you are in that camp, Kinross might be worth a shot on further weakness.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:KGC (Kinross Gold Corporation)
2. TSX:K (Kinross Gold Corporation)

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/07/06
Date Created
2016/07/21
Author
aswalker