Kinross Gold Corporation: Time to Buy or Bail Out?

Description

Kinross Gold Corporation (TSX:K)(NYSE:KGC) has pulled back in recent weeks, and investors are wondering if the dip is an opportunity to buy or a signal to book some profits.

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

Gold market

Gold has enjoyed a strong rally in 2016, but there are indications the move could be losing steam.

What's going on?

Coming into 2016, most pundits expected the U.S. Federal Reserve to raise interest rates four times.

Higher rates are generally negative for gold because they tend to push up the value of the U.S. dollar against a basket of foreign currencies. Gold is priced in American dollars, so a stronger greenback makes the precious metal more expensive for foreign buyers.

Higher rates in the U.S. also raise the opportunity of cost of holding non-yielding gold.

Weak data in the U.S., concerns about global financial stability, and the Brexit vote have forced the Fed to sit on its hands so far this year. As a result, the rally in the U.S. dollar lost some steam and gold has surged.

After the U.K.'s decision to leave the European Union and the Bank of England's subsequent move to cut rates and launch new stimulus measures, many analysts predicted the Fed would have to wait until 2017 to make its next rate adjustment.

In recent weeks, however, the mood has begun to shift and market watchers are now leaning toward a single rate hike before the end of the year.

As a result, investors have taken profits in the gold sector, and mining shares are off as much as 20%.

Fed Chair Janet Yellen said in an August 26 speech that the case for raising rates has strengthened "in recent months." Gold initially dropped on the comments but, at the time of writing, has rebounded sharply.

Investors should expect to see continued volatility in the near term as the market reacts to new data and rate-move rumours.

Kinross

Kinross finally has its balance sheet in order after spending most of the past five years recovering from the disastrous US$7 billion acquisition of Red Back Mining.

The company finished Q2 2016 with just US$1.7 billion in long-term debt and held cash and cash equivalents of US$968 million. Free cash flow for the quarter was US$202 million.

Capital expenditures are trending below guidance and Kinross confirmed 2016 output of 2.7-2.9 million ounces at AISC of US$890-990 per ounce.

Production for the quarter came in at 671,000 gold equivalent ounces and all-in sustaining costs (AISC) of US$988 per ounce. That's better than AISC of US$1,011 per ounce in Q2 2015.

Recent troubles at its operations in Chile are not expected to have a material impact on the full-year results.

The company is planning to invest US$300 million to expand throughput at its Tasiast mine. This should boost production by 90% at the site and significantly cut AISC.

Should you buy?

You have to be a long-term gold bull to own any of the miners right now. If you fall in that camp, Kinross is an attractive bet.

The company is making good progress on its turnaround efforts, and AISC should continue to come down in the coming years. However, I would wait for the current pullback to run its course before putting new money to work in the sector.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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Date
2025/07/06
Date Created
2016/08/26
Author
aswalker