

Kinross Gold Corporation or Yamana Gold Inc.: Which Is a Better Bet for Higher Gold Prices?

Description

Gold stocks have pulled back from their 2016 highs, and gold bugs are wondering which names might be attractive picks right now.

Let's take a look at **Kinross Gold Corporation** ([TSX:K](#))([NYSE:KGC](#)) and **Yamana Gold Inc.** ([TSX:YRI](#))([NYSE:AUY](#)) to see if one deserves to be in your portfolio.

Kinross

Kinross has worked hard to restore its balance sheet after the disastrous 2010 purchase of Red Back Mining.

What happened?

Kinross paid US\$7 billion for Red Back shortly before gold topped out above US\$1,900 per ounce. The subsequent crash in gold prices and disappointing production from core assets meant Kinross had to write down most of the value of the Red Back deal.

Management has done a good job of reducing the debt load in recent years, and Kinross is now on solid footing. The company finished Q2 2016 with just US\$1.7 billion in long-term debt and had US\$968 million in cash and cash equivalents.

The rebound in gold this year has helped boost margins, and Kinross even generated US\$202 million in free cash flow in the second quarter.

With the balance sheet under control, Kinross is now focusing on growth. The company purchased assets in Nevada earlier this year and recently unveiled plans to invest US\$300 million in its Tasiast project in Mauritania.

Tasiast was supposed to be the crown jewel of the Red Back deal, but the site has never lived up to expectations. That might finally change.

The new investment in the mine is expected to boost production by 90% and help drive down all-in sustaining costs (AISC) to the point where the facility can deliver significant margins at current prices.

Kinross produced 671,000 gold equivalent ounces in Q2 at AISC of US\$988 per ounce. Guidance for 2016 remains 2.7-2.9 million ounces at AISC of US\$890-990 per ounce.

Yamana

Yamana has also struggled with high debt levels and continues to make progress on its restructuring efforts.

The company recently sold its interest in the Mercedes mine in Mexico for US\$122.5 million. Yamana will use the proceeds to pay down its debt position as part of management's plan to lower net debt by US\$300 million before the end of 2017.

The company finished Q2 2016 with US\$1.66 billion in long-term debt and cash and cash equivalents of US\$93 million.

Yamana produced 313,086 ounces of gold in Q2 at AISC of US\$964 per ounce. The company also produces silver and copper. AISC for 2016 is expected to come in at US\$880-920 per ounce.

Net free cash flow for the quarter was US\$37.4 million.

Last year the company put a number of its non-core assets into a subsidiary called Brio Gold. The original plan was to sell the properties to pay down the company's debt. Management decided to put the disposition on hold in December, and that has proven to be a wise move, given the rebound in the market in 2016.

Is one a better bet?

Both Kinross and Yamana will benefit from higher gold prices. At the moment, I would go with Kinross. The company has made more progress on its debt-reduction efforts, and the Tasiast expansion has the potential to be a real game changer in the coming years.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. NYSE:KGC (Kinross Gold Corporation)
3. TSX:K (Kinross Gold Corporation)
4. TSX:YRI (Yamana Gold)

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/07/05

Date Created

2016/09/15

Author

aswalker

default watermark