Kinross Gold Corporation: Is it Finally Time to Buy This Beleaguered Stock?

Description

Kinross Gold Corporation (TSX:K)(NYSE:KGC) is up 40% in less than two months, and investors are wondering if the latest rally has legs.

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

Turnaround story

Kinross has been a nightmare for shareholders for nearly a decade, as ill-timed takeovers and falling gold prices sent the stock from above $25 per share in early 2008 to below $2.50 in January last year.

The stock has since rebounded as high as $7.50 and currently trades for about $5.50 on the TSX.

Better gold prices are a large part of the story, but Kinross has also made significant efforts to position itself for renewed growth, and contrarian investors are starting to take notice.

What's up?

Kinross finally has its balance sheet in order. The company finished Q3 2016 with cash and cash equivalents of US$756 million and long-term debt of US$1.73 billion. None of the debt is due before 2020.

Total liquidity at the end of September was US$2.2 billion, giving Kinross ample flexibility to pursue its growth initiatives and ride out any further turbulence in the gold market.

One project to keep an eye on is the Tasiast asset in Mauritania. The mine has not lived up to expectations since it was acquired in 2010, but that situation looks set to change.

How?

Kinross is spending US$300 million to expand the mine's throughput and increase production.

In the first phase of the expansion, Kinross will boost mill throughput by 50% to 12,000 tonnes per day (t/d). This is expected to increase average annual production by 87% to 409,000 ounces from 2018 to 2027 and lower all-in sustaining costs (AISC) to US$760 per ounce.

The company is currently evaluating a second expansion phase where throughput would jump to 30,000 t/d. If Kinross decides to go ahead with the second leg, average annual production could hit 770,000 ounces from 2020 to 2026 at AISC of US$665 per ounce.

Kinross is looking at an internal rate of return of at least 17% on the project if gold remains above US$1,200 per ounce and oil averages US$45 per barrel.

Should you buy?

Kinross still has some work to do to reduce overall costs across its total asset portfolio, but the company is definitely on the mend and the growth outlook is promising.

You have to be a gold bull to buy any of the mining stocks right now, but if you fall in that camp, it might be worthwhile to consider a small contrarian position in Kinross while the name is still out of favour.

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