Gold Hits US$1,330: Time to Buy Kinross Gold Corporation?

Description

Investors are looking at the recent gold rally and wondering if it is finally time to buy the gold miners again.

One company that has suffered heavily through the downturn, but has made progress on its turnaround efforts, is **Kinross Gold Corporation** (TSX:K)(NYSE:KGC).

Let's take a look at the market situation, as well as Kinross, to see if the miner deserves to be in your portfolio.

Gold rush

Gold traded in a range between US$1,200 and US$1,300 for the first half of 2017, and most pundits expected the second half of the year to follow the same pattern.

However, gold has gone from US$1,210 in early July to US$1,330, and the market is trying to decide how much higher the precious metal could run before the end of the year.

Gold is primarily impacted by interest rate moves in the United States and investors fear regarding financial risk and geopolitical threats.

The U.S. Federal Reserve has already raised interest rates two times in 2017, and the market initially expected at least one more move to the upside by the end of the year. Higher rates increase the opportunity cost of owning the non-yielding metal and tend to put downward pressure on the price.

In recent weeks, however, the mood has changed, and many pundits are thinking the Fed might be done until 2018. As a result, gold is getting a bit of a boost.

On the fear side, gold has pretty much shrugged off financial and geopolitical threats in the last couple of years, but the unpredictability of President Trump and the rising tensions with North Korea have investors seeking out safe-haven assets, including gold.

If U.S. economic data starts to come in weaker than expected, the U.S. Fed could sit on its hands until the middle of next year, and that would likely push gold higher. Additional geopolitical turmoil could also add upward momentum.

Kinross

Kinross has worked hard in recent years to clean up its balance sheet after the ill-timed US$7 billion purchase of Red Back Mining just before gold peaked in 2011.

The company is now focused on growth, and the top asset that came with the Red Back deal might be the catalyst for the stock in the coming years.

The Tasiast project in Mauritania has underperformed since the acquisition, but Kinross is investing US$300 million in an expansion that should boost throughput from 8,000 to 12,000 tonnes per day (t/d) once it is completed in 2018. In addition, the company is evaluating the feasibility of a second expansion at the site that would take throughput to 18,000 t/d.

If phase two gets the green light, Tasiast would become the top asset in the portfolio with very attractive all-in sustaining costs (AISC).

Should you buy?

Gold's momentum can turn on a dime, so you have to be careful chasing the rally, although the current momentum looks like it could pick up steam in the coming months.

As for Kinross, the company is definitely on the mend, although Q2 AISC came in at US$910 per ounce, which is higher than its larger peers. If Tasiast works out as planned, that metric should improve.

I wouldn't back up the truck, but if you are a long-term gold bull and have a bit of a contrarian investing style, it might be worthwhile to start nibbling on Kinross at the current level.

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