Value Investors: Gold Companies Are Cheap, But Should You Buy?

Description

The stock market chaos of the past few weeks has been a little unsettling. Investors have started to question the market leaders, the economy, and high-valuation stocks. Uncertainty has resulted in massive withdrawals from ETF index funds, which have brought the market down even further. If selling turns to panic, gold might be a good place to go. Companies operating in the space are still cheap and have been cheap for a while.

Finally, gold is starting to glitter a little once again. The last few weeks of market chaos has brought gold prices out of the dumps back up to slightly higher levels. While we've seen this movie before, it is entirely possible that incredibly cheap gold stocks may have a chance at making a big move.

Many of these good stocks are not only cheap, but are getting better all the time, as their balance sheets continue to strengthen. **Kinross Gold** (TSX:K)(NYSE:KGC) stands out as one good company that may have a tremendous amount of upside if gold prices continue to climb.

A global gold producer, Kinross operates in a number of jurisdictions. The company has mines in North and South America as well as Africa and Russia. Even with its globalized mining base, the company receives 60% of production from the Americas. Much of that production is in Canada and the United States, giving the company a degree of stability.

Kinross currently trades at less to its book value. It has earnings, free cash flow, and a solid balance sheet. It also trades at a trailing price-to-earnings multiple of just under 10. At the moment, Kinross has a strong balance sheet with a significant amount of cash. The company does not have a significant amount of debt, and the debt it does have doesn't begin to mature until 2021. Since it does not pay a dividend, Kinross is able to conserve cash for capital expenditures and debt obligations.

Revenue was not a high point for the company in the second quarter of 2018, decreasing 10% over the same period the year before due to decreased sales volumes. Earnings also decreased as compared to the same period of 2017. However, net operating cash flow was up slightly — less than 1%.

While these results are not exactly stellar, the company is not doing badly either. If prices were to jump and margins were to increase, Kinross could see its profit increase substantially. The company was negatively impacted by a decrease in production at a number of its mines, which caused its income to drop by 13%. Rising Treasury yields and a strong U.S. dollar also negatively impacted the company's cash flow.

Gold prices will most likely not rise substantially until there is significant economic or political instability, a falling U.S. dollar, or rising inflation. Therefore, holding a company like Kinross with a strong balance sheet that enables it to weather the bad times is a wise choice. Investors need to remember that they might have to wait for a significant amount of time before gold begins to move.

Investments gold companies have been nothing but depressing over the past several years. It has been basically dead money at best and major losses at worst. But past results are not an indicator of future returns, for better or for worse. These companies are at a point of enormous value and can move quickly once things turn around. If you believe there are serious dark clouds on the horizon, then owning shares in a cheap gold company like Kinross is not a bad way to go.

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