Is it Time to Buy Kinross Gold Corp. (TSX:K)?

Description

Firmer gold has attracted considerable attention for gold miners with investors combing the industry looking for bargain-basement opportunities. One that's been gaining attention is **Kinross Gold Corp.** (TSX:K)(NYSE:KGC), which has spiked by almost 9% since the start of 2019. This has garnered considerable interest from some pundits, who are claiming that it's poised to deliver value for investors. While Kinross is certainly not the worst gold miner, its recently reported 2018 results and 2019 guidance indicate that the miner is an unappealing investment.

Mediocre 2018 results

Kinross' achieved its 2018 guidance reporting production of 2.45 million gold equivalent ounces, although this was 8% lower than 2017. That decline can be attributed to lower ore grades at its Kupo mine and production outages at the Fort Knox mine. It also reported all-in sustaining costs of US$965 per gold equivalent ounce produced, which was US$10 an ounce lower than forecast, but 1% higher than a year earlier. This was the seventh straight year that saw Kinross achieve its guidance.

While firmer gold has been a boon for Kinross, those high AISCs are of some concern, particularly when the miner expects 2019 production to remain flat and those costs to rise by 3% to US$995 per ounce.

A combination of higher AISCs and lower margins were primarily responsible for Kinross reporting a 2018 net loss of US$24 million compared to a US$445 million profit a year earlier. This was despite Kinross obtaining an annual average realized price of US$1,268 per gold equivalent ounce sold, 1% greater than 2017.

Along with those unappealingly high AISCs over 40% of Kinross' gold production comes from unstable and/or risky jurisdictions such as Mauritania and Russia. Along with the considerable operational hazards associated with mining and the miner's high operating expenses,that increases the degree of risk associated with investing in Kinross.

However, this is partly mitigated by the miner's solid financial position, which saw it finish 2018 with total liquidity of US$1.9 billion and no debt maturities before 2021.

Kinross also expects its production over the longer term to grow as it continues working on its portfolio of development projects aimed at extending mine life at its Round Mountain and Fort Knox mines. It also owns the La Coipa and Lobo-Marte projects in Chile, which it is assessing to determine whether it is feasible to advance those properties to production.

Should investors buy Kinross?

Flat production growth, poor 2018 financial results and a lack of positive catalysts make Kinross an unappealing investment. Because the miner is not experiencing any production despite investing heavily in developing its assets, the only driver for a higher share price will be firmer gold.

While the yellow metal has firmed significantly since plunging below US$1,200 an ounce in early October 2018, there are indications that it may not have further to rally. Emerging signs that a U.S. China trade war has been averted bodes well for the global economy and will lead to lower geopolitical risk. That will likely dial down the degree of uncertainty surrounding the outlook for markets, which was a key driver of the flight to safety that lifted gold to over US$1,300 earlier this year.

When the operational issues at Fort Knox connected with a pit wall failure in early 2018 and heightened geopolitical risk liked to the Tasiast mine in Mauritania, Kinross is an unappealing investment. For investors seeking to bolster their exposure to gold, there are far more attractive intermediate and junior precious metals miners offering greater potential upside.

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