Revealed: Canada’s Best Gold Stock in 2020!

Description

Kinross (TSX:K)(NYSE:KGC) is engaged in gold mining and related activities, including exploration and acquisition of gold-bearing properties, extraction and processing of gold-containing ore and reclamation of gold mining properties.

Kinross’ production and exploration is carried out principally in Canada, the United States, Russia, Brazil Chile, Ghana and Mauritania. Kinross reports a market capitalization of $7.4 billion, with a 52-week low of $4.04 and a 52-week high of $7.24.

Intrinsic price

Based on my calculations, using a precedent transaction model, I determined that Kinross has an intrinsic value of $14.33 per share. The precedent transaction model was created with data on the acquisitions of Goldcorp, Randgold and Detour Gold.

At the current share price of $5.90, I believe Kinross is significantly undervalued. Investors willing to assume a bit more risk and are looking to add a gold producer to their RRSP or TFSA should consider buying shares of Kinross.

Kinross has an implied enterprise value of $18 billion, which represents the theoretical price a buyer would pay for all of Kinross’s outstanding shares plus its debt. This includes a 3% median premium that buyers have been paying for target companies in the gold industry.

Financial highlights

For the nine months ended September 30, 2019, the company reports a poor, but improving balance sheet with negative retained earnings of US$10.35 billion, up from negative US$10.55 billion as at December 31, 2018.

This is not ideal for investors as it suggests the company has more years of cumulative net loss than net income.

Given shareholders' equity of US$4.8 billion, goodwill of US$159 million and nil intangibles, the company reports tangible net worth of US$4.6 billion. This is a good sign as tangible net worth refers to the real value of a company.

Total revenues are up slightly to US$2.5 billion, from US$2.4 billion the prior year (+3%) complemented by more efficient production (9% reduction in COGS year over year) for pre-tax income of US$357 million, up from US$116 million in 2018 (+209%).

From a cash flow perspective, the company reports operating cash flows (net income plus DD&A) of US$717 million, up from US$591 million in 2018.

Management takes a proactive approach to debt management, as evidenced by a US$200 million repayment of debt, up from an US$80 million repayment in 2018. This is offset by the issuance and debt of US$300 million in 2019, up from US$80 million in 2018.

The company's acquisition spending slowed down during 2019 to US$30 million, from US$289 million in 2018. Despite this, capital expenditure spending is up to US$807 million, from US$770 million, indicating that the company is investing in itself.

Foolish takeaway

Investors looking to buy shares of a gold producer should consider buying shares of Kinross. Despite its negative retained earnings, it reports increasing revenues and has an adept management team keen on reducing its debt and growing the business.

Using a precedent transaction model, I determined Kinross's intrinsic value to be $14.33, which represents a steep premium to the $5.90 at which it is currently trading.

While I commend Kinross on increasing its operational efficiency, as suggested by the decrease in COGS year-over-year, I would like to see management be a bit more selective about how it spends money in order to reduce the substantial negative retained earnings.

Overall, TFSA and RRSP investors that are willing to take on a bit more risk will be generously rewarded by investing in Kinross.

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cliu