Kinross Gold (TSX:K) Is up Over 100%: Is There More Upside?

Description

The global equity markets have been highly volatile this year amid the uncertainty created by the pandemic. The outbreak of COVID-19 had led to a slowdown in economic activities across the world. So, the central banks in the United States and Canada had lowered the interest rates to boost the economy. The lower interest rates have also reduced the yields on bonds and debts, thus making them less attractive.

Given the uncertainty in the equity markets and lower returns on bonds, investors flocked to the safe-haven asset, gold, leading to a surge in its price. The gold prices have appreciated by over 50% this year and currently trades close to its all-time high.

Higher gold prices have benefited **Kinross Gold** (TSX:K)(NYSE:KGC), which mines for gold and silver. The company's stock is up over 100% this year. On Monday, it hit its 52-week high of $12.55 on the back of its impressive second-quarter performance and higher gold prices. In the second quarter, the company had outperformed analysts' expectations. Let's look at its numbers in more detail.

Strong year-over-year growth

Kinross Gold reported its second-quarter earnings on July 29. During the quarter, the company's revenue grew more than 20% year over year to US$1 billion, beating analysts' expectations of US$990.62 million. Meanwhile, its adjusted EPS came in strongly at US$0.15, representing an increase of 150% from its previous year's quarter.

A higher average realized gold price and improvement in its operating efficiency led to an increase in its margins and earnings. During the quarter, Kinross Gold's attributable margins improved by 53% to US$987 per ounce, which was better than a 31% increase in its average realized gold price.

Its three largest producing mines, Paracatu, Kupol, and Tasiast, together contributed 63% of the total production. These mines incur lower mining expenses, which contributed to the improvement in its margins.

The impressive second-quarter performance increased the company’s operating cash flows by 30% to US$432.8 million, which further strengthened its liquidity position. At the end of the second quarter, the company’s cash and cash equivalents stood at US$1.53 billion, while its total liquidity stood at US$2.3 billion.

Outlook

Analysts are bullish on gold. As reported by CNBC on July 28, Barry Dawes of Martin Place Securities expects gold prices to hit US$3,500 per ounce in the next two years. Meanwhile, Garth Bregman of BNP Paribas Wealth Management is projecting gold prices to consolidate at US$2,000 per ounce before starting to rise again. So, the outlook for gold is robust, which could benefit Kinross Gold.

Meanwhile, Kinross Gold has several of its projects in the pipeline. In June, the company signed an agreement with the government of Mauritania, which granted it a 30-year exploitation licence for its Tasiast mine.

Last month, the company completed the pre-feasibility study of the Lobo-Marte project in Chile, which added 6.4 million ounces to its gold reserve estimates. Also, it increased Kinross Gold’s reserve life index by roughly 2.5 years.

So, given the pipeline of projects and the expectation of gold price to remain elevated, I believe the company’s outlook remains robust. Also, the company’s management expects to generate a free cash flow of US$900 million this year, provided gold prices remain above US$1,800 per ounce.

Bottom line

Despite the surge in its stock price, Kinross Gold trades at an attractive valuation multiple. Currently, the company trades at a forward price-to-earnings multiple of 14.46 compared to its average of 22 over the last three years.

So, the strong growth prospects, attractive valuation multiple, and a low debt-to-EBITDA ratio of 0.7 make Kinross Gold an attractive buy.

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