This Gold Stock Has More Than Tripled From its Lows: Should You Buy?

Description

As the price of physical gold continues to scale fresh high with each passing day, shares of **Kinross Gold** (TSX:K)(NYSE:KGC) have more than tripled from its 52-week low of $4. The fear of recession continues to drive demand for the shiny yellow metal, in turn, pushing the shares of gold mining companies higher.

Higher jobless claims, rising coronavirus cases, and weak economic data suggest that the momentum in gold is likely to sustain in 2020 and beyond. The adverse impact of the pandemic on the economy is still unknown, and with record-low interest rates, investors are likely to chase higher yields in safe-haven assets.

As the outlook for gold remains strong, it's prudent to buy Kinross Gold stock, despite its recent run. The company's increased production from low-cost mines implies that its margins are likely to remain strong, driving its bottom line and, in turn, its stock.

In the most recent quarter, Kinross Gold's three largest-producing, low-cost mines delivered 63% of total production. Higher production and low costs drove 53% growth in its attributable margins. Investors should note that its margins jumped 53% as compared to the 31% increase in average realized gold price. What it means is that Kinross Gold's operating efficiencies are helping the company's margin growth rate to outpace the increase in the average realized gold price.

Q2 performance and outlook

Kinross Gold continues to deliver solid financial results in 2020. In the most recent quarter, Kinross Gold produced approximately 572,000 ounces of gold. Its revenues from metal sales jumped 20% year over year, thanks to the 31% growth in the average realized gold price per ounce. As noted above, its margins soared about 53%, while adjusted net earnings more than doubled.

Kinross Gold's adjusted operating cash flow jumped 45% year over year, thanks to the higher margins. Meanwhile, its free cash flows doubled.

The company paid US$250 million of revolving credit facility, thanks to the growing cash balance that is helping the company to strengthen its net debt-to-EBITDA ratio.

Kinross Gold expects production at its Tasiast mine (one of its three largest-producing low-cost mines) to increase in the last two quarters of 2020, which is encouraging. Meanwhile, Paracatu mine continues to deliver higher production, while the cost of sales per ounce sold is decreasing due to the favourable foreign exchange rates.

Bottom line

The prospects for Kinross Gold remain bright, as higher average realized gold prices are likely to drive its top and bottom line. Further, three of its largest-producing mines are delivering the lowest costs, implying that its margins could expand further, while its earnings could continue to grow at a double-digit rate.

The company's strong cash position and favourable operating environment imply that its net debt-to-EBITDA ratio is likely to strengthen further. Meanwhile, Kinross Gold stock trades at a lower price-to-cash flow ratio, as compared to its peers.

Investors should rush to buy Kinross Gold stock, not only to protect their portfolios from an economic downturn, but also to generate stellar returns in the long run.

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