# 3 Strong Reasons to Snap Up Kinross Gold (TSX:K) Stock Right Now

**Description**

As the gold prices surged in 2020 amid strong demand for the yellow metal, shares of gold mining companies crafted new highs. For instance, shares of **Kinross Gold** (TSX:K)(NYSE:KGC) have doubled so far this year and have outperformed peers by a wide margin.



Despite the rally, I believe there's further upside in Kinross Gold stock. Here are three strong reasons why I believe investors should snap up Kinross Gold stock right now.

## Growing low-cost production

Kinross Gold announced robust three-year production guidance, wherein the company expects its production to increase by 20% to 2.9 million gold equivalent ounces over the next three years. While the company projects a steady increase in production, it expects an overall downward trend in the production cost of sales and capex, which is likely to boost its free cash flow significantly.

Over the next three years, the gold mining company plans to bring lower-cost projects, which are likely to lead to a downtrend in the production cost of sales per ounce sold. The company's CEO, J. Paul Rollinson, said that "our growing production profile, combined with our declining cost structure, is expected to drive strong and growing free cash flow."

Investors should note that the company's growing production, higher demand for gold, and declining cost trend is likely to significantly drive its margins and cash and its stock. In the most recent quarter, its margins jumped 53% year over year, outpacing the 31% increase in the gold price, thanks to the leverage from the increased production from the low-cost mines.

## Reinstatement of dividends

Besides strong production guidance, Kinross Gold also announced the reinstatement of its dividends after a hiatus of seven years. The company last paid dividends in March 2013.

Kinross Gold declared a quarterly dividend of US$0.03 per share, which translates into a decent dividend yield of about 1.3%. The reinstatement of its dividends indicates the strength in its underlying business, improving prospects, and ability to generate strong cash flows. The announced dividend will be paid on October 22 to the shareholders of record as on October 8.

## Attractive valuation

Kinross Gold looks attractive on the valuation front, despite the strong run-up in its stock. Kinross Gold trades at a forward enterprise value-to-EBITDA multiple of 5.4, which is well below (about 34% discount) the peer group average of 8.3.

In comparison, **Agnico-Eagle Mines** and **Barrick Gold** are trading at a forward enterprise value-to-EBITDA multiple of 8.3 and 10.4, respectively.

The fear of an economic slowdown and rising coronavirus infections suggests that the demand for the yellow metal could stay high in the foreseeable future, which is likely to push prices higher. Meanwhile, Kinross Gold's increased production, declining cost trend, solid balance sheet, and reinstatement of its dividends warrant further expansion in its valuation multiple.



## Bottom line

Amid the lower interest rate environment, investors chasing higher returns from safe-haven assets should snap up Kinross Gold stock right now. Its improving business prospects, favourable industry trend, and low valuation provide a strong base for outsized growth in the coming years.

**CATEGORY**

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**Date**
2025/08/28
**Date Created**
2020/09/18
**Author**
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