There’s a Lot to Like About Kinross Gold (TSX:K) Stock After a Stellar Q3

Description

Kinross Gold (TSX:K)(NYSE:KGC) stock spiked 8.4% on Thursday, thanks to its robust Q3 financial performance. The gold mining company’s revenues from metal sales jumped 29% year on year to US$1,131.3 million, reflecting higher average realized gold prices.

The average realized gold price increased by 30% to US$1,908 per ounce in Q3 compared to US$1,476 per ounce in the year-ago quarter. Investors should note that Kinross Gold’s margins per ounce of gold sold surged 60% and handily outpaced the 30% increase in gold prices, which is encouraging.

Buoyed by strong metal sales and margin expansion, Kinross Gold’s Q3 earnings tripled to US$0.25 per share, while its operating cash flow surged 86% year on year.

Commenting on the Q3 performance, J. Paul Rollinson, the company’s president and CEO, said “Kinross delivered another strong quarter, generating robust free cash flow and a significant increase in earnings.” Rollinson added “our robust financial position, diverse operating portfolio, attractive project pipeline and successful track record of exploration and project development provides a strong foundation from which to continue building value well into the future.”

Besides the company’s strong Q3 financial numbers, there’s a lot to like about Kinross Gold, which suggests further upside in its stock.

Increasing production, declining costs

Along with its Q3 earnings, Kinross Gold introduced a three-year production and cost guidance. The company expects its production to reach 2.9 million ounces in 2023, reflecting a 20% increase. Moreover, an extensive pipeline of projects should continue to drive its production higher until 2029.

While its production is expected to increase, management projects its production cost of sales and capital expenditures to go down, which should give a significant boost to its earnings and free cash flows.

Attractive valuation

Shares of Kinross Gold are up about 88% year to date, yet look attractive on the valuation front. Kinross Gold stock trades at a next 12-month enterprise value-to-EBITDA multiple of 4.1, which is significantly lower (a discount of about 41%) than its peer group average of 6.9.

The company's peers, including **Agnico-Eagle Mines**, **Barrick Gold**, and **Kirkland Lake Gold**, are trading at the next 12-month enterprise value-to-EBITDA multiple of 7.3, 7.1, and 6.2, respectively.

Investors should note that the resurgent virus and an uncertain economic outlook are likely to support gold demand and drive its prices higher, leading to increased revenues and margins for gold mining companies like Kinross Gold.

The expected increase in Kinross Gold's production, lower production cost of sales, and the favourable outlook are likely to expand its valuation multiple further, implying that its stock has more room for growth in the coming years. Also, the company reinstated its quarterly dividend payouts, implying that investors could also benefit from its decent dividend yield of 1.4%.

Final thoughts

With growing production and declining cost trends, I see a multi-year growth opportunity in Kinross Gold stock. Its diverse portfolio of mines, robust margins and free cash flows, strong liquidity, and comfortable net debt EBITDA multiple should drive its stock higher.

Meanwhile, its attractive valuation and reinstated dividends strengthens my bull case and sets the stage for a continued rally in its stock.

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snahata