



Should You Buy Kinross Gold or Yamana Gold Stock Now?

Description

Gold is moving higher again and that has investors wondering which top gold stocks might be [undervalued](#) right now.

Outlook for gold in 2021

Gold trades nears US\$1,800 per ounce at the time of writing. That's up from US\$1,700 at the end of March, but still well off the 2020 peak around US\$2,080 it hit last August.

Recent momentum is likely due to the pullback in U.S. treasury yields, which soared from 0.51% last summer to 1.75% at the end of Q1, 2021. Gold doesn't pay a dividend or any interest, so the opportunity cost of owning the metal increases when bond yields rise.

The yield on the U.S. 10-year is back down to 1.58%. A drop in the yield over the past three weeks has helped fuel the gold bounce. Looking ahead, bond prices might continue to rally, driving the yield down even further. Inflation fears stoked the initial surge and will continue to play a role in the market, but the sell-off in the bond market was probably overdone.

Interestingly, gold is often viewed as a good hedge against inflation. Massive stimulus programs could trigger an overheated global economy and drive up prices across the world. Consumer products companies in the United States have already warned they will raise prices this year to offset rising commodity costs.

In the event inflation fears ramp up again, gold could find a new bid as a place to protect wealth. This might overpower the headwind that would come from a potential rise in treasury yields if the market thinks the U.S. Federal Reserve could be forced to raise rates earlier than expected.

A near-term catalyst for gold could come in the form of a bursting crypto bubble. Money that moved from gold to Bitcoin to play the rally might return to gold stocks as crypto investors book profits.

Is Yamana Gold stock a buy today?

Yamana Gold ([TSX:YRI](#))([NYSE:AUY](#)) trades for close to \$6 per share right now compared to \$9 at the top of the 2020 rally.

Gold production is expected to rise from 780,000 ounces in 2020 to nearly 900,000 ounces in 2023. Beyond that timeframe, Yamana has a number of promising development opportunities in Canada, Brazil, and Argentina.

Yamana is generating strong cash flow at current gold prices. All-in sustaining costs came in at US\$1,080 per ounce in 2020 and should be close to US\$1,000 per ounce this year. The balance sheet is in good shape and investors could see additional dividend hikes this year.

Yamana raised the [dividend](#) by 50% in Q4 2020. The new payout provides an annualized yield of 2.1%.

Yamana has a market capitalization of about \$6 billion. High-quality Canadian assets could make it a potential takeover target as the industry consolidates.

Should Kinross Gold be on your buy list?

Kinross Gold ([TSX:K](#))([NYSE:KGC](#)) trades for about \$9.60 per share ring now compared to \$13 in early August last year.

The miner has come a long way in the past decade after huge takeover blunders saddled the company with massive debt. Kinross took heavy write-downs and sold off non-core properties to get the balance sheet in order. The rebound in the price of gold from US\$1,100 per ounce in 2015 to nearly US\$2,100 last year helped Kinross immensely.

In the [Q4 2020 results](#) Kinross said it generated a record US\$1 billion in free cash flow in 2020 and finished the year with total liquidity of US\$2.8 billion, including cash and cash equivalents of US\$1.2 billion. Total debt to start the year was US\$1.9 billion, so the company is in good shape.

The Tasiast mine is finally realizing its potential, delivering record production and low costs for the second straight year. Across the asset portfolio, Kinross expects production to grow by 20% in 2023. All-in sustaining cost for 2020 came in below US\$1,000 per ounce.

The existing dividend provides an annualized yield of 1.6%.

Kinross has a market capitalization of about \$12 billion. The war chest of cash on hand and a strong balance sheet give Kinross flexibility to make new acquisitions to drive additional growth.

Is one a better bet?

Pundits think gold could take a run at the 2020 high later this year or in 2022. Current momentum looks promising and both Yamana and Kinross appear cheap today. If you only buy one, I would probably make Kinross the first choice.

CATEGORY

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2. Metals and Mining Stocks

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2. NYSE:KGC (Kinross Gold Corporation)
3. TSX:K (Kinross Gold Corporation)
4. TSX:YRI (Yamana Gold)

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