Kinross Gold Corporation Is on the Move

Description

Back in January, no one wanted a piece of **Kinross Gold Corporation** (TSX:K)(NYSE:KGC), and it's easy to see why. The company's 2011 acquisition of Red Back Mining has turned into a disaster and has only been made worse by falling gold prices. To top it all off, there have been worries about Kinross's exposure to Russia. To put this in perspective, the U.S.-listed shares had fallen by more than 90% over the previous five years.

But a lot has changed since then. Gold prices have firmed up. Kinross has put up some decent numbers. And most recently, the company has decided to proceed with a phased expansion of its Tasiast mine, which was originally acquired in the Red Back deal. When putting this all together, the company's shares have increased by more than 150% in just two-and-a-half months.

So just how strong have Kinross's results been? And what does the Tasiast expansion mean for the company's future?

Strong results

Seemingly without anyone noticing, Kinross has actually delivered strong results during each of the past four years. In 2015 production came in at 2.6 million ounces, which was at the top end of guidance, while costs and capital expenditures were lower than forecast.

There have been a couple of nice tailwinds helping Kinross along the way. First of all, the decline in oil prices has helped the company reduce costs. Secondly, the fall in the Russian rouble and Brazilian real has dramatically reduced costs at the company's mines in those countries.

The Tasiast expansion

The original plan to expand Tasiast would have cost US$1.6 billion and would not have been well received in a falling gold-price environment. But the current plan offers a number of advantages.

First of all, the expansion takes a phased approach, which dramatically reduces risk. Phase one would run until Q1 2018, cost roughly $300 million, and increase production to over 400,000 ounces per year (an increase of nearly 100%). Better yet, phase one would reduce all-in sustaining costs at the mine to $760 per ounce and yield an internal rate of return of 20%.

Second, Kinross's new approach is much less costly, even if the company goes ahead with phase two. Altogether, the two phases would cost less than $1 billion and come with an IRR of 17%.

Of course, these numbers assume that all plans go smoothly, which is usually a generous assumption in this sector. But these numbers still hold a lot of promise and demonstrate the lower-risk approach that Kinross is taking. The numbers assume a gold price of just US$1,200 per ounce, which is below today's spot prices.

All in all, it looks like Kinross is finally turning a corner. It's not surprising at all that the company's stock price is up so much.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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