Bay Street sees renewed lustre in battered Kinross shares

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Analysts raise their ratings as new CEO, rising gold prices boost outlook

Analysts are taking a shine to shares of Kinross Gold Corp., predicting Canada's third-largest gold miner is done taking a beating now that it has replaced its chief executive officer and pledged to get tough on run-away costs.

In the past week alone, the stock price has jumped 9 per cent, lifted in large part by upgrades from several analysts.

Barely a month ago, fewer than half of the 23 analysts covering Kinross saw it as a "buy." Today, 14 of them recommend purchasing the shares, according to data provided by Bloomberg News.

Much of the new-found optimism came as gold prices swelled in September in the wake of a third round of quantitative easing by the U.S. Federal Reserve, a move that has fuelled fears of higher inflation down the road. Gold is a classic hedge against inflation.

Kinross mines only gold, making it more leveraged to the price of bullion than many of its peers, who also produce byproduct metals such as copper. But a poor operational record has made it less sensitive to upward moves in gold than shareholders would have liked.

Analysts now say that newly appointed CEO Paul Rollinson could put the company back on the road to solid returns after his predecessor announced the biggest losses in Kinross's history earlier this year.

Kinross stock closed at $10.88 a share on Thursday, up 44 per cent from 52-week lows in May, but still a far cry from its highs of $15.23 a share a year ago and not even half its level in September, 2009.

The company has had a rough run for the better part of a year, hurt by a $2.49-billion writedown at its Tasiast gold project in Mauritania in the first quarter.

It acquired the mine as part of the largest acquisition in its history, the $7-billion takeover of Red Back Mining in the summer of 2010.

Amid rapidly building investor discontent, Kinross abruptly replaced former chief executive Tye Burt on Aug. 1, pledging a new focus on containing costs. It was the second high-profile dismissal of a major gold company president this year and came on the heels of Barrick Gold Corp.'s decision in June to oust its chief executive amid poor stock performance.

"At this point it seems that a lot of the bad things have been priced in," said ***Pawel Rajszel***, an analyst with ***Veritas Investment Research*** in Toronto, who has a "buy" rating on Kinross.

RBC Dominion Securities Inc. raised the rating on the stock this week to "Outperform" from "Sector Perform" and set a price target of $14 a share.

Greg Barnes, an analyst with TD Mining Research was one of the first to upgrade the stock. He boosted it to a "buy" from a "hold" on Sept. 20 as he applauded Kinross's plans to study the possibility of a smaller mill at Tasiast as a sign that the new management is making more prudent use of capital.

Kinross is regarded as one of the highest-cost producers among the major league gold producers in an industry plagued with higher prices in areas ranging from materials to labour and fuel.

To be sure, not everyone is bullish on Kinross's outlook, although no analysts go so far as to rate it as a "sell."

George Topping, an analyst with Stifel Nicolaus in Toronto, says he's still waiting for more bad news from the company, which has yet to update the market fully about its plans for the Tasiast project.

"Unlike Barrick, they didn't take the opportunity when they changed the CEO to bring all the skeletons out of the closet," said Mr. Topping, who has a "hold" recommendation on the stock and would need to see better cost controls and improved operational performances at Tasiast before he changes his mind.

"Kinross did not take the opportunity to reset expectations, and therefore there's probably still skeletons yet to come out," he said.

It bears mentioning that a year ago, when the stock was trading at almost $15 a share, more than half of the analysts who covered it were rating Kinross as a "buy."