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Kinross Gold Corp

K / KGC (TSX; NYSE): C$11.79; US$9.02

Stock Rating: Outperform

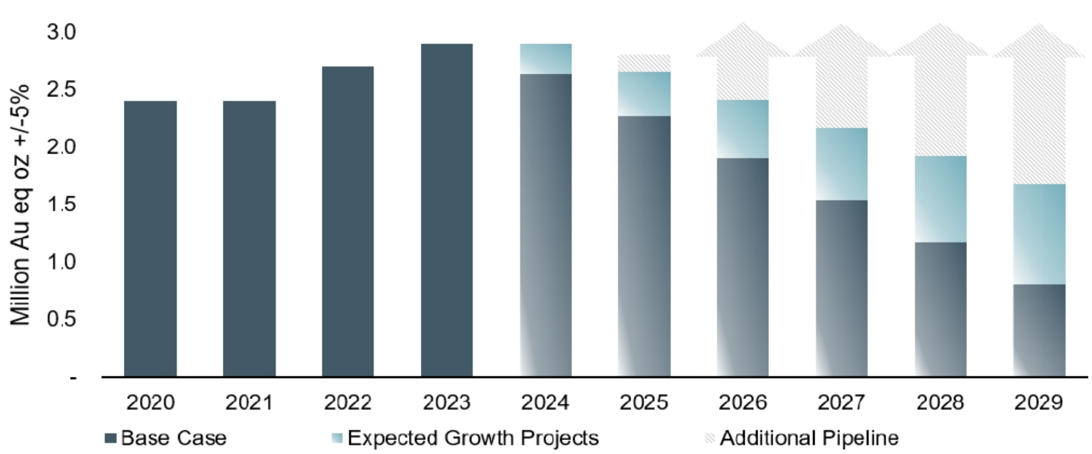
Target: C$17.00

Opportunities a Plenty - Takeaways from Kinross' Operations Update

This morning, Kinross hosted a conference call focused on their latest operational update, which calls for gold equivalent production to average 2.5 million ounces over the next 10 years. This 10-year outlook comes on the back of a nearer term outlook released last month which calls for production to rise from ~2.4 MGEOs in 2020 to 2.9 MGEOs by 2023, with AISC expected to drop over this period. Our current base case estimates are largely aligned with the 2020-2023 outlook, which results in a very strong FCF outlook for Kinross. Coupled with the current share price, this equates to peer best FCF yields over this period. We view Kinross as a Top Pick for their strong operational track record, healthy balance sheet, strong FCF generation, disciplined M&A track record, excellent exploration upside, and attractive valuation relative to the senior producer peers.

Figure 1 below highlights Kinross' 10-year outlook that shows on average production to be 2.5 million GEOs per annum. Initially, the rise to 2.9 MGEOs by 2023 appears to not be sustainable, but as the gray arrows "additional pipeline" indicate, there exists a multitude of opportunities within the existing portfolio (see below for more details) to keep production elevated over the longer term. Today's webcast was focused very much on these "additional pipeline" opportunities and, in our view, a lot of them show very good potential of becoming a reality, despite Kinross using a very conservative US$1,200/oz gold price budget to warrant the go-ahead decision on them. We also note that the "additional opportunities" exist across the producing portfolio. We do not believe they were well understood by the market previously, and in our opinion, today's webcast was well executed in bringing these opportunities to light.

Figure 1: Long-Term Outlook



Source: Kinross Gold Corp.

Figure 2 below is an excellent reference to consider alongside Figure 1. It lists the various "additional pipeline opportunities" within the portfolio that could see production sustained at ~3.0 MGEOs for many years beyond 2023. The bulk of the opportunities are tied to three main types of categories.

The first category of opportunities is reserve life extensions, such as with:

- Kupol life of mine (LOM) extension, which has a very long history (12 years) of reserve replacement
- Chirano LOM extension, which played the biggest part in the robust 3-year outlook update by adding 3 years to a mine previously viewed as coming to the end of its mine life. Today, multiple targets offer further upside to the LOM.

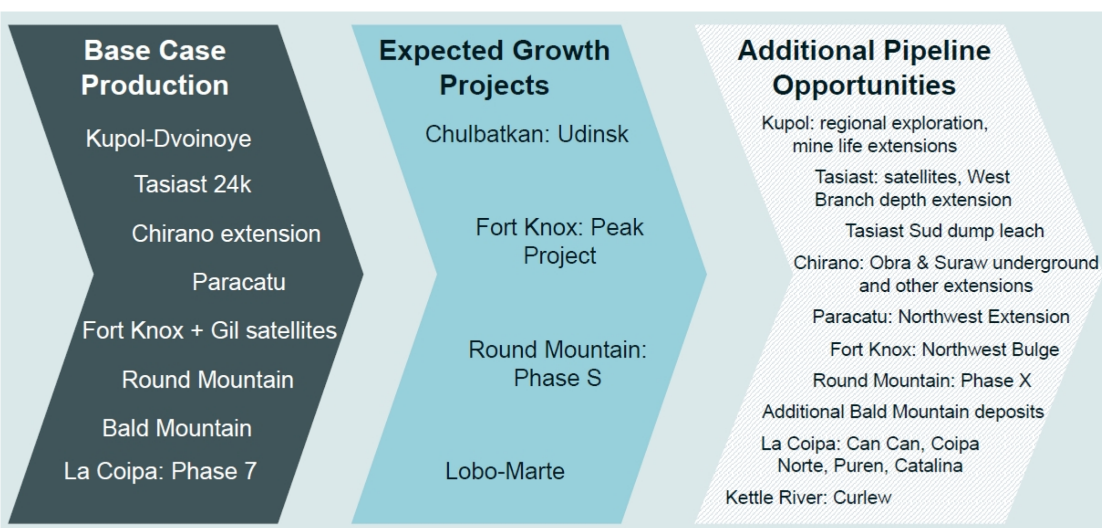
The second category of opportunities lies with regional satellite deposits, such as:

- Kupol's prospective regional exploration properties, including the newly acquired Kayenmyvaam property (acquired this week). Kinross plans on significant resource definition and confirmation drilling at this property in 2021.
- Tasiast's Fennec, C67 and C68 to the north of main operation; and the development of the Tasiast Sud zones to the south. Tasiast Sud could add ~100koz to the 2021-2023 production (not in the guidance currently).
- Development of the recently acquired Peak Project JV in Alaska, with ore processed at the large Fort Knox mill.
- Development of Fort Knox's Gil and Sourdough satellites (Feas results expected in early 2021), a 0.6 Moz resource.
- Bald Mountain could see development of additional/expanded pits (North and South Duke, Royale and Saga).
- La Coipa has been cleared for restart, but four (Can Can, Catalina, Coipa Norte, and Puren JV(65% interest)) additional regional satellites could add ~1.0 MGEOs, extending the current mine life of 3-4 years by 3-5 years.

The third category of opportunities are expansions of existing open pit mines via pit wall lay backs, such as:

- A pit wall lay back at West Branch (Tasiast) could add multiple hundreds of thousands of ounces to reserves.
- Paracatu's Northwest Extension pit wall lay back could add four more years to the flagship mine, which is expected to produce at over 600koz of gold for the next few years.
- Fort Knox could bring in nearly 1.0 Moz of gold resources through the expansion of the existing pit (Northwest Bulge).
- Round Mountain could follow on the success of the Phase W expansion with Phase S (1.1 Moz) and Phase X (2.1 Moz). Phase X could alternatively be considered as a more selective underground operation due the higher grades at depth.
- Bald's Vantage mine could see a second pit wall lay back.

Figure 2: Production and Project Pipeline



Source: Kinross Gold Corp.

We derive our C$17.00 target price for Kinross from a 100% weighted 6.50x 2021 EV/EBITDA target multiple, which implies a P/NAV multiple of 1.30x. As of intra-day pricing, Kinross was trading at 5.9x and 4.9x our 2020 and 2021 estimates on an EV/EBITDA basis and 0.91x NAV vs the peer senior producer peer average of 9.3x, 6.9x and 1.50x, respectively. Kinross also exhibits, in our view, a very attractive FCF (after dividends) yield of 7.7% on our 2021 estimates and 11.3% on our 2022 estimates. Our gold price assumptions for 2021 and 2022 are US$1,915/oz and US$1,820/oz, respectively.

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